



Economics and Industry Standing Committee

**Perceptions and Realities of
Regional Airfare Prices in Western Australia**

**Report No. 2
November 2017**

Legislative Assembly
Parliament of Western Australia

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Economics and Industry Standing Committee

Perceptions and Realities of Regional Airfare Prices in WA

Report No. 2

Presented by

Ms J.J. Shaw, MLA

Laid on the Table of the Legislative Assembly on 30 November 2017

Chair's Foreword

Few issues attract greater local interest or rouse community sentiment more in regional Western Australia than the cost of air travel.

In the regions, air travel is not a luxury – it is an essential service, akin to buses or trains in the metropolitan area. It sustains communities, provides links to families and friends, facilitates economic activity and affects people's perceptions about the 'liveability' of regional centres.

Access to reasonably-priced air travel can be the point of difference between feeling a sense of remoteness or remaining connected. Between deciding to build a life in a regional town, or leave because the sense of isolation is too great.

This Inquiry was initiated because regional communities have repeatedly voiced their concerns about the price of regional airfares, and have often been met with muted industry responses. Moreover, government policy has not adequately addressed community concerns – particularly following recent changes in the market.

This Report examines whether prices are in fact high; considers the impact these prices have on regional communities; explores causal factors driving high prices; and suggests steps that Industry and Government might take to address community concerns and reduce airfares.

Are Prices High?

Airline industry pricing is notoriously complex and opaque. As the title of this Report suggests, the Committee sought first to understand whether Community perceptions of high airfares match market realities. Unlike most things Western Australians buy in their everyday lives, airfares for particular flights and routes can change by the day, if not the hour and prices escalate rapidly (and perhaps inexplicably), the closer to the travel date.

The Committee considered fares for Regular Public Transport (RPT) services on regulated routes (where a monopoly is granted to a single operator, with information disclosure obligations), and unregulated routes (where market forces theoretically place downward pressure on price and information disclosure is not required).

The Committee received considerable evidence suggesting that fares on unregulated routes are unreasonably priced. In the absence of any obligation to provide information, public visibility of airlines' cost structures and pricing mechanisms on these routes is extremely limited. Successive witnesses from across the State, however, used terms such as 'price gouging', 'market failure', 'duopoly' and stated that routes

lacked competition. The Committee also received academic evidence to suggest that fares are lower and less volatile on regulated routes.

Unfortunately, the Committee encountered a general resistance from airlines to provide information that would have enabled it to draw conclusions regarding the reasonableness of fares on unregulated routes. In the absence of clear information regarding costs and fare construction, it is difficult for the Committee to conclude that airlines are genuinely setting fair prices. And without proactive community engagement to explain their position, it is impossible for industry operators to change community perceptions or allay concerns.

Community Impacts

The Committee did receive very clear evidence regarding the impact that high airfares have on regional communities. The Inquiry attracted 122 submissions – a record number for a completed Legislative Assembly Inquiry, demonstrating the extent of community concern across the State.

The Committee held hearings in Perth and six regional centres: Albany, Broome, Esperance, Kalgoorlie, Karratha and Kununurra. Given the level of public interest, and in another ‘first’ for a Legislative Assembly Committee, we also held public forums in four centres (Broome, Kalgoorlie, Karratha and Kununurra), to provide community members with the opportunity to directly communicate their concerns, tell their stories and provide recommendations.

Our engagement with regional communities across the State conveyed the widespread level of unhappiness in many townships, with high airfares affecting social amenity, government service delivery, the operation of local businesses, and the development and sustainability of a vibrant tourism industry.

People recounted stories where they had been unable to attend important legal or personal appointments, visit sick relatives, attend significant family events, or – tragically – say final farewells to loved ones. People told us that their Perth-based families could not afford to visit them (and vice versa); that they could not visit their children at boarding school or regularly bring them home; that their adult children could not return home from university; that they cannot themselves afford to go away on holiday. All of these factors can compound feelings of isolation and loneliness: airfares are often a major factor when people decide to leave regional centres altogether.

Local business operators expressed frustration at the impact expensive air travel has on overall operations, noting that it affects recruitment and training costs, staff attraction and retention, professional development, and also prevents them from meeting clients or seeking new business opportunities. Government services and Not for Profit

operators are similarly affected, with negative impacts on service delivery potentially placing people at risk in some instances. Tourism operators relayed their disappointment at the lack of engagement from airline operators on initiatives to expand local markets and outlined the impact high airfares have on demand for WA destinations, compared to overseas locations.

The Committee appreciated residents' candour and their willingness to share their experiences. Given time and budgetary constraints, we were disappointed not to be able to visit more regional centres, but received submissions from across the State and held a range of video conferences to hear from as many regional centres as possible.

Although many stories were similar, the Committee notes that there were marked differences between the volume and tone of evidence received from destinations on Regulated and Unregulated routes. This Report finds that community sentiment is more positive on regulated routes, where airlines proactively engage with local communities regarding price and service operation.

Factors Affecting Price

Undoubtedly, WA is an expensive place to do business in. All airline operators noted the relatively high costs associated with operating in this State, and this is broadly accepted by the Committee. The Committee also notes that supply/demand dynamics and cost drivers vary significantly between routes and has identified three broad route types: Resource and Energy, Community and Hybrid routes.

Despite differences between routes, we consider that there are a number of overarching factors contributing to WA's high airfares. First and foremost, the State's RPT routes are 'thin', characterised by low passenger volumes and serving small population centres, meaning fixed and operating costs are shared over a smaller base.

On Resource and Energy routes, both general purchasing decisions and the recent structural adjustment in the sector (as it moves from 'construction' to 'production' phase) also have an impact on price. Moreover, charter services and the location of airstrips proximate to RPT airports affect RPT route pricing and overall service viability.

The Committee considers that market structure is an important factor contributing to the price of airfares on unregulated routes. This Report notes that the previous Government adopted a 'light handed' approach to route regulation, based on the belief that competition would impose a natural restraint on prices. Evidence before the Committee suggests that market forces may not operate to place sufficient downward pressure on airfares to some unregulated destinations. The Committee considers that a duopolistic market structure may prevent the operation of market forces, leading to parallel schedules and similar pricing.

Airport charges have been a particularly contested factor. The Committee finds that airport landing fees constitute a varying, but generally small, component of the total costs of regional fares. The Committee also considers that Local Government Authorities and regional airport operators have been open and transparent regarding the calculation and level of landing fees. Some have also proactively fixed or reduced charges. We did not receive evidence that airports are charging unreasonable fees.

Industry-Led Solutions?

The Committee acknowledges that it is legitimate (in fact, necessary) for airlines to make a profit. This principle was advanced repeatedly by witnesses to the Inquiry. No business can be expected to run at a loss. Moreover, we accept that it is important to protect commercial confidentiality in a competitive environment.

Noting the importance of air travel to regional communities, the Committee considers that there are a range of steps that the airline industry could take to address community concerns and demonstrate that they are not extracting unreasonable profits – particularly from local residents forced to travel under emergency or other compassionate circumstances.

Most obviously, airlines can reduce fares. This Report notes that airlines used to offer ‘compassionate fares’ to assist community members attempting to travel at times of great distress. If airlines were to proactively re-introduce these fares, this would be wholly consistent with good corporate citizenship and would likely assist to reduce community outrage.

This Report outlines several initiatives currently offered in the market. We observe that discounts for residents are frequently offered on the most expensive fare classes and may therefore still represent a considerably more expensive fare than other non-resident fares offered into the market at different points in time. We particularly note Qantas’ Residents’ Discount Fare offer, announced during this Inquiry. Whilst this is a welcome step, the Committee is concerned about the nature of community engagement undertaken when introducing the fare; its ability to provide a long-term, sustainable solution for community access to reasonably priced fares; and whether these fares represent the best price that could be offered to community members travelling under ‘compassionate’ circumstances.

The evidence to this inquiry also suggests that where operators proactively engage with Communities to explain cost drivers, route dynamics and service requirements (such as Rex’s engagement on the regulated Esperance and Albany routes), community sentiment is far more positive. Voluntary initiatives introduced by airlines to assist customers to understand airfare pricing dynamics would considerably reduce community outrage.

What Can The State Government Do?

The Committee would prefer that the airline industry voluntarily take steps to address community concern and reduce airfares on unregulated routes or demonstrate the reasonableness of their prices. However, where industry either cannot or will not proactively introduce measures, there is scope for the State Government to act.

Given altered market conditions and the recent change of Government, the Committee considers that the *State Aviation Strategy* is in urgent need of review. There have been significant structural adjustments in the WA economy (particularly in the Resources and Energy sector) since the Strategy was first released in 2015. Evidence also suggests that the 'light handed' approach outlined in the Strategy and adopted by the previous Government may not deliver reasonable outcomes for regional WA. There is also considerable scope for greater inter-departmental collaboration on aviation policy, with this Report also recommending that the Premier consider re-establishing an Aviation Ministerial Council (previously instituted under the Gallop Labor Government).

Beyond general policy recommendations, there are also a number of more direct interventions that the State Government can take.

The Committee has observed the paucity of information available with respect to intrastate aviation. This lack of information prevented the Committee from forming a view on the reasonableness of airfare pricing or recommending specific actions on route regulation. We are concerned that a similar constraint affects the Department of Transport.

The Minister for Transport has a range of existing licensing powers under the *Transport Coordination Act 1966* and *Transport Co-Ordination Regulations 1985* to compel the production of information. The Committee recommends that the Minister use these powers on unregulated routes, in conjunction with strict confidentiality protocols, to protect commercially sensitive information.

The Committee considers that more information would considerably assist with policy development. Moreover, disclosure may, in itself, place downward pressure on prices. A number of witnesses observed to the Committee that the mere fact of disclosure places a natural restraint on gouging or unfair pricing. We further recommend that the Department use this information to prepare a biannual report to the Minister on intrastate market dynamics and airfares.

A requirement to provide greater information on unregulated routes represents an intermediate step between the current 'light handed' policy approach, and route re-regulation. It provides the State Government with the ability to conduct its policy function more effectively, observe the operation of the intrastate aviation market, consider whether the market is operating to produce fair pricing outcomes on regional

unregulated routes and determine whether more interventionist market steps are warranted.

Evidence to this Inquiry suggests that market forces may not place sufficient downward pressure on airfares to some unregulated regional destinations. Decisions with respect to route regulation should be based on the best available information, and this has perhaps not been provided to the Committee. Given the complex policy environment, extensive economic analysis and community consultation required to determine appropriate forms of market intervention, the Committee considers that it cannot recommend the re-regulation of particular routes. However, it would be appropriate for the Government to consider whether any existing WA routes should be re-regulated. We have therefore also recommended that the Department of Transport undertake a separate programme of work on this specific issue.

There were a range of other matters that arose during this Inquiry, including service quality, freight, market interactions, leveraging Government purchasing power and enhancing the availability of public information.

Particularly, as part of its review of the *State Aviation Strategy*, the Committee has recommended that Government consider the design of tender packages on regulated routes, to bundle 'like' destinations, attract market interest and deliver scale efficiencies. We also considered the opportunity for additional regional centres to be incorporated into a regulated coastal 'milk run', noting that there is currently no framework within which this type of initiative can be examined. There may be considerable public benefit to communities on the 'milk run', and interest from market operators.

Keeping The Air Fair

Regional Western Australians are rightly concerned about the cost of intrastate air travel. Air services are vital to regional communities – unfair pricing can have a devastating impact on individuals, families, businesses and entire townships.

Airlines are rightly entitled to receive a return for the services they provide. Alongside this right, however, sits a responsibility to treat local communities fairly and compassionately. If disproportionately high or unreasonable returns are being extracted from vulnerable community members, this is manifestly unacceptable.

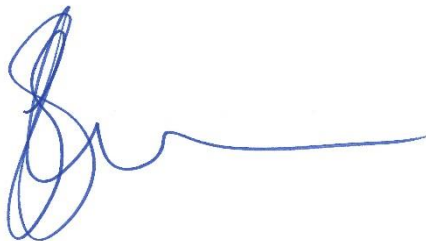
Previous policy positions on unregulated routes have rested on the assumption that competition will drive lower prices. However, the mere presence of two market participants on a route does not automatically guarantee a competitive environment, nor provide assurance that market forces are delivering price restraint.

Based on the evidence presented to this inquiry, the Committee is unable to find that market forces are placing sufficient pressure on unregulated route prices. The possibility of market failure or anti-competitive conduct is of significant concern. It is important that the State Government secure access to sufficient information to enable it to form a view and develop appropriate responses – and on an ongoing basis, rather than at a fixed point in time.

The Committee would prefer that industry take proactive steps to provide information and engage with communities to address concerns about the high cost of regional airfares. But if industry will not act, Government should. We have suggested a graduated range of measures, aimed at promoting fairer outcomes – and lower fares – for regional WA.

I would like to take this opportunity to acknowledge the hard work and contribution of my fellow committee members Mr Sean L'Estrange MLA, Deputy Chair; Mr Yaz Mubarakai MLA; Mr Stephen Price MLA; and Hon Terry Redman MLA to this Inquiry.

I would also like to thank the Committee's Principal Research Officer, Dr David Worth, and Research Officer, Mr Lachlan Gregory, for their assistance throughout this Inquiry.

A handwritten signature in blue ink, consisting of a large, stylized initial 'S' followed by a long horizontal line.

MS J.J. SHAW, MLA
CHAIR

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Ministerial Response

In accordance with Standing Order 277(1) of the Standing Orders of the Legislative Assembly, the Economics and Industry Standing Committee directs that the Premier and the Ministers for Mines and Petroleum, Tourism and Transport, and the Minister representing the Minister for Regional Development, report to the Assembly as to the action, if any, proposed to be taken by the Government with respect to the recommendations of the Committee.

Findings and Recommendations

Finding 1 **Page 8**

There are considerable differences between Western Australian regional destinations and their route supply-demand dynamics.

Finding 2 **Page 11**

For most regional centres in Western Australia, there are limited alternative modes of travel to flying that are timely and safe.

Finding 3 **Page 16**

The scope for State Government intervention in the Western Australian aviation market is limited.

Finding 4 **Page 20**

The evidence before the Committee suggests that airfares on regulated routes are lower and less volatile than on unregulated routes.

Finding 5 **Page 20**

The terms of the Deeds of Agreement for regulated RPT routes ensure the availability of information about airfares, costs and passenger numbers to the public.

Finding 6 **Page 20**

Community outrage is lower when airlines proactively engage with regional communities, collaborate and innovate to develop service offerings and offer reasonable information to the community regarding costs, passenger numbers and fares.

Finding 7 **Page 23**

All airlines flying RPT routes in Western Australia use an automated yield management system to set prices for fares offered to the general public, which may change by the day, but are generally higher closer to departure.

Finding 8 **Page 28**

Data provided by the Bureau of Infrastructure, Transport and Regional Economics indicate that the passenger cost per kilometre for intra-Western Australian routes are often significantly higher compared with other national routes of similar distance.

Finding 9 **Page 36**

The more remote the regional community is from Perth, and the more limited alternative transportation arrangements are, the more significant the impact of high airfares on regional communities.

Finding 10 **Page 37**

High regional airfares are significantly and adversely affecting the lives of regional Western Australians, particularly those who are forced to travel due to sickness, emergency or other family incident.

Finding 11 **Page 38**

The high cost of regional airfares can have a debilitating effect on price-sensitive markets, particularly small businesses and tourism operators.

Finding 12 **Page 42**

The aircraft used by all airlines servicing regional routes in Western Australia are significantly older than those used to serve routes in other jurisdictions.

Finding 13 **Page 44**

In addition to the impact that high fares have on regional communities, many residents are affected by inadequate scheduling, a poor quality older air fleet and unreliable and expensive freight services.

Finding 14 **Page 47**

Tourists are holidaying outside of Western Australia, often in South East Asian destinations including Bali, Singapore and Thailand. The high cost of regional airfares to and within Western Australia is a significant contributing factor.

Finding 15 **Page 52**

Airlines are required to travel significantly further, and to regional centres with smaller populations, than they do on RPT routes in all other Australian jurisdictions.

Finding 16 **Page 59**

The Committee accepts that the dynamics vary significantly between RPT routes. However, to the extent that block bookings or seat charters essentially underwrite – or cover a substantial portion of the costs – of flights, it is difficult to justify extreme high prices for remaining seats sold to community members, particularly where those seats are purchased under conditions of extreme hardship.

Finding 17 **Page 60**

Charter flights to sites located near RPT destinations have the potential to undermine the viability of RPT services to those destinations.

Finding 18 **Page 62**

The development of new resource project airstrips close to existing airports hosting RPT services undermines RPT services.

- Finding 19** **Page 65**
Structural adjustment in the resources and energy sector has had a fundamental impact on regional aviation markets.
- Finding 20** **Page 67**
Resource and energy companies receive a substantial benefit that is often not available to other businesses, when they fly their FIFO workers to site due to these costs being eligible as an exemption from the Fringe Benefit Tax.
- Finding 21** **Page 70**
Evidence before the Committee suggests that market forces may not operate to place sufficient downward pressure on airfares to some unregulated regional destinations.
- Finding 22** **Page 70**
Most unregulated RPT routes in WA are flown by both Qantas Airways and Virgin Australia. A duopolistic market structure may prevent the effective operation of market forces, leading to parallel schedules and similar pricing. This is an important factor contributing to the price of airfares on unregulated routes.
- Finding 23** **Page 75**
The debate about the cost of WA airport charges relative to airport charges in the Eastern States is similar to the claims made about high regional airfares in WA. ‘Apples for apples’ comparisons are difficult and should be made with caution.
- Finding 24** **Page 78**
Airport landing fees constitute a varying, but generally small, component of the total costs of a regional airfare.
- Finding 25** **Page 78**
Local Government Authorities and private airport operators have been open and transparent with the Committee regarding the calculation and the level of their landing fees.
- Finding 26** **Page 82**
There are different passenger fee models used by airports around Australia. In Western Australia, local governments tend to operate airports as separate business units, and seek to recover both operating and capital costs. Recovered capital costs are frequently placed into reserves for future airport upgrades, repairs and maintenance. The Committee received no evidence that local councils were charging unreasonable fees.

Finding 27**Page 84**

The State Government indirectly subsidises regional airfares by providing substantial assistance to local governments for their airport development and maintenance with funds provided, including under the Regional Airport Development Scheme.

Finding 28**Page 87**

Separate to airport landing fees, the cost of maintaining and providing security services on unregulated RPT routes, due to a Commonwealth Government requirement, is a significant cost on each passenger fare.

Finding 29**Page 99**

The airline industry previously offered ‘compassionate’ fares to assist community members attempting to travel at times of great distress. If airlines were to proactively re-introduce these fares, this would be wholly consistent with good corporate citizenship and would likely assist to reduce community outrage.

Finding 30**Page 99**

Various airlines operating unregulated routes to regional destinations in Western Australia offer categories of discounted airfares for local residents. The discounts are frequently off the most expensive fare class and may therefore still represent a considerably more expensive fare than other non-resident fares offered into the market at different points in time.

Finding 31**Page 99**

Airlines operating in Western Australia adopt differing stakeholder engagement strategies. Community outrage is lower where airlines engage proactively with local communities and demonstrate responsiveness to local concerns.

Finding 32**Page 99**

Qantas’ introduction of its Residents’ Discount Fare is a welcome step. However, the Committee is concerned about the nature of the community engagement undertaken when introducing the fare; its ability to provide a long-term, sustainable solution for community access to reasonably priced fares; and whether these fares represent the best price that could be offered to community members travelling under ‘compassionate’ circumstances.

Finding 33**Page 100**

Voluntary initiatives introduced by airlines to assist customers to understand airfare pricing dynamics would considerably reduce community outrage.

Finding 34 **Page 103**

Collaborative initiatives between local businesses, councils and airlines would open up a range of new opportunities, expand the tourism market and overall passenger demand, increasing scale and potentially reducing airfares.

Finding 35 **Page 105**

While three overseas airlines have recently announced new services to Perth, it seems unlikely in the near future that the State can attract a low-cost airline servicing tourists on regional routes.

Finding 36 **Page 105**

The population, market size and current traffic to the State’s main regional centres are the main factors inhibiting the development of new low-cost air services to regional WA.

Finding 37 **Page 106**

Local communities have innovated to improve the attractiveness of their tourism product (with differing degrees of success) and have experienced varying levels of engagement with airlines.

Finding 38 **Page 109**

Many regional local governments have taken direct action to reduce or freeze airport passenger and landing charges, to decrease fares and stimulate higher passenger numbers.

Finding 39 **Page 110**

Airport operators in the Pilbara have developed operational efficiencies and cost savings by sharing knowledge and collaborating on tenders.

Recommendation 1 **Page 112**

The Minister for Transport initiate an immediate review to update the *State Aviation Strategy*, to reflect current market conditions and the Government’s intrastate aviation policy objectives. The review should consider the adequacy of the Department of Transport’s resources, in light of any proposed changes to its policies or functions.

Finding 40 **Page 113**

The Departments of Transport, Primary Industries and Regional Development and Tourism WA currently work together in an *ad hoc* fashion on specific aviation-related tasks.

Recommendation 2 **Page 114**

The Ministers for Transport, Tourism, and Regional Development establish an interdepartmental working group by 1 February 2018 to assist the review of the *State Aviation Strategy* and undertake a more coordinated approach to aviation policy implementation.

Recommendation 3 **Page 114**

The Premier consider re-establishing an Aviation Ministerial Council, to provide oversight for the recommended review of the *State Aviation Strategy* and ensure an ongoing whole-of-Government approach to the implementation State aviation policy.

Recommendation 4 **Page 115**

The Department of Transport develop memorandums of understanding by July 2018 with regional airport operators that service unregulated RPT flights for the provision of relevant flight and passenger data. As a minimum, the operators should provide the data that they disclose to the Bureau of Infrastructure, Transport and Regional Economics.

Finding 41 **Page 120**

Subject to regulatory or contractual constraints, airlines could provide classes of information under the *Transport Coordination Act 1966* and *Transport Coordination Regulations 1985* to Government on a voluntary and confidential basis.

Recommendation 5 **Page 121**

The Minister for Transport utilise existing licensing powers under the *Transport Coordination Act 1966* and *Transport Co-Ordination Regulations 1985* to require that airlines operating on unregulated RPT routes provide the ‘prescribed records’ listed in Appendix Seven to the Department of Transport. Strict confidentiality protocols need to be observed around commercially sensitive information.

Recommendation 6 **Page 121**

The Minister for Transport direct the Department of Transport to produce a biannual report assessing prevailing market dynamics and airfares on WA’s unregulated RPT routes.

Finding 42 **Page 124**

There are differing views on whether the State Government should re-regulate additional RPT air routes in Western Australia, and at what level of passenger numbers regulation should apply.

Finding 43**Page 126**

The drop in fares for the regulated Rex RPT routes to Albany and Esperance support the academic evidence provided to the Committee that regulated routes in WA have lower and less volatile airfares than unregulated routes.

Recommendation 7**Page 127**

The Minister for Transport direct the Department of Transport to undertake a discrete, detailed economic analysis and community consultation to determine whether any additional RPT routes in WA should be subject to regulation, with priority placed on the Perth-Kununurra service.

Finding 44**Page 130**

There is a difference of view between some local councils and the Department of Transport as to the level of consultation undertaken in the current tender process for regulated routes.

Recommendation 8**Page 130**

The Department of Transport review its current tender design process for regulated RPT routes. The review should consult with the market regarding alternative packaging arrangements to optimise service efficiencies for 'like' routes.

Recommendation 9**Page 132**

As part of the review of the *State Aviation Strategy*, the Department of Transport engage with industry and local communities to examine the market opportunities for additional inter-regional routes within Western Australia.

Recommendation 10**Page 133**

As part of the review of the *State Aviation Strategy*, the Department of Transport consider whether any current RPT routes require subsidisation to secure their viability.

Recommendation 11**Page 134**

The Department of Transport report to the Minister of Transport on the viability and utility of providing a web-based tool for regional airfares similar to FuelWatch.

Finding 45**Page 136**

The Government has procedures in place to use its purchasing power to produce savings from its annual budget of over \$30 million in airfares for State agencies and Government Trading Enterprises.

Recommendation 12**Page 137**

As part of the review of the *State Aviation Strategy*, the Department of Transport consider opportunities to leverage the State's purchasing power to encourage initiatives such as compassionate and/or community airfares for residents.

Recommendation 13**Page 138**

All proposals for new mining airstrips within 100km of existing RPT airports to be considered at Cabinet level and be accompanied by a recommendation from the Aviation Ministerial Council.

Finding 46**Page 138**

Growth in the State's tourism industry will increase the scale of the regional airfare market, thereby placing downward pressure on airfares to regional destinations.

Finding 47**Page 142**

The proposal to lift cabotage restrictions in Australia is supported by two major regional centres in Western Australia as a way of boosting tourism and lowering airfares for residents, but is strongly opposed by the two largest airlines serving the State.

Finding 48**Page 149**

Most other Australian jurisdictions regulate at least one economically marginal air route. The Queensland Government has a specific fund to support regional air services, particularly those focused on increasing their tourist sector and providing essential air services in remote areas in northern Queensland.

Chapter 1

Conduct Of The Inquiry

This Inquiry has generated the largest number of submissions and hearings of any inquiry completed by the Legislative Assembly Committee Office.

...many leave our towns to see sick family members, or sadly attend funerals. It is rare to be offered a compassionate fare from Qantas or Virgin. You get a call to let you know that a family member has passed, or is sadly about to pass, you look on Qantas or Virgin to get a flight tomorrow. \$888 one-way. This is bad for families, bad from a social perspective, and putting it simply, a rip off.¹

This submission from a resident of Tom Price was one of the first the Economics and Industry Standing Committee received for its Inquiry into regional airfares in Western Australia. It reflects the tenor of most of the 122 submissions received, especially from those who live in regional WA and need to purchase a ticket for an urgent, last-minute flight.

This inquiry examines whether regional airfares for Regular Public Transport (RPT) routes in Western Australia are in fact high, the impact that high fares have on regional communities and (to the extent that information was available) considers the factors contributing to these high costs. It makes a series of findings and recommendations regarding community impacts, the aviation market and government policy, aimed at placing downward pressure on fares.

1.1 The Committee's Inquiry Takes Flight

The Inquiry commenced on 14 June 2017 and its Terms of References, as reported to Parliament, are contained in Appendix One.

In August 2016, local councils in the Pilbara called for a State Government investigation into the factors driving high airfares for passengers flying to and from the North West. The then-Leader of the Nationals Party, Brendon Grylls MLA, was reported as saying "if

1 Submission No. 8 from Cr Peter Foster JP, Councillor- Tom Price Ward, Shire of Ashburton, 25 July 2017, p2.

Chapter 1

the Federal Government aren't going to do anything, it does fall on the State Government to wade into that area.”²

On 1 February 2017, WA Labor Leader Mark McGowan MLA committed that a new Labor Government would conduct a parliamentary inquiry into the cost of flights in regional WA, which would make recommendations to government on how to get a better deal for passengers.³ After the election, the new Tourism Minister, Hon Paul Papalia MLA, said the high costs of regional flights in WA was an issue that had afflicted small businesses, tourism operators and people in regional areas for many years. He said the Inquiry would “get to the bottom of why these fares are so expensive and give airlines the opportunity to provide solutions.”⁴

1.2 A Substantial Input From Submissions And Hearings

The Committee placed an advertisement calling for submissions from the public in *The West Australian* on Saturday 26 June 2017. The Inquiry generated great interest from a diverse section of the State’s regional communities and the Committee received 122 submissions (see Appendix Two⁵) from a wide range of stakeholders, including:

- 61 individuals;
- 3 political parties;
- 2 key State Government Departments- Department of Transport (DOT) and the Department of Jobs, Tourism, Science and Innovation (JTSI), and the Federal Department of Infrastructure and Regional Development;
- 12 local government authorities, as well as WALGA and the WA Regional Capitals Alliance;
- 4 Development Commissions;
- 12 community-based organisations such as Chambers of Commerce and Industry,
- important industry associations such as the Tourism Council, WA Aboriginal Tourism Operators Council, Australian Hotels Association and the Australian Airport Association; and

2 ABC News, “Pilbara councils demand inquiry into ‘inequitable’ airfares in North West WA”, 26 August 2016. Available at: www.abc.net.au/news/2016-08-26/pilbara-councils-call-for-airfare-inquiry/7789812. Accessed on 12 May 2017.

3 Mark McGowan MLA, *WA Labor reaffirms commitment to inquiry into airfares in regional WA*, 1 February 2017. Available at: www.markmcgowan.com.au/news/wa-labor-reaffirms-commitment-to-inquiry-into-airfares-in-regional-wa-1299 . Accessed on 12 May 2017.

4 Ms Emma Kirk, *The Land*, “Inquiry into regional flight costs”, 22 June 2017. Available at: www.theland.com.au/story/4746977/inquiry-into-was-expensive-airfares/. Accessed on 14 November 2017.

5 To access the Committee’s submissions, visit: [www.parliament.wa.gov.au/Parliament/commit.nsf/\(EvidenceOnly\)/56EB8419DC1AD17A4825814000116283?opendocument](http://www.parliament.wa.gov.au/Parliament/commit.nsf/(EvidenceOnly)/56EB8419DC1AD17A4825814000116283?opendocument).

- Qantas Airways Ltd, Virgin Australia, Skippers Aviation and Regional Express (Rex).

The Committee held 41 public hearings at which 93 witnesses appeared (see Appendix Three⁶). These hearings were held in Perth and six key regional centres (Albany, Broome, Esperance, Kalgoorlie-Boulder, Karratha and Kununurra) which host either regulated or unregulated RPT routes from Perth. The Committee also conducted hearings by videoconference with witnesses in Tom Price and Onslow. Given the interest in this Inquiry from residents in regional areas, the Committee arranged for its public hearings in Perth to be broadcast live from the Parliament's web site. In total, the Committee has heard from and spoken to the operators of the Perth International Airport and eight regional airports.

This Inquiry has generated the largest number of submissions and hearings of any inquiry completed by the Legislative Assembly Committee Office.

1.3 The Committee Also Held Four Public Forums

Given the deep level of public unhappiness over regional airfares, the Committee agreed to convene public forums in Albany, Broome, Kalgoorlie, Karratha and Kununurra to directly engage with individuals, hear their stories and seek suggestions for recommendations it could make to Government. The Committee proposed a forum in Esperance, but did not schedule one due to a lack of response to the proposal.

The forums received a positive response in four of the five towns, with 50 people appearing in Broome and Karratha and nearly 70 in Kalgoorlie. The Committee received feedback that, had the forums been held outside of work hours, attendance may have been larger. Notably, no members of the public attended the Albany forum, aside from a local journalist and the local Member of the Legislative Assembly.

Regional Members of the Legislative Assembly and Legislative Council attended all other public forums.

1.4 Desktop Review And Additional Research

The Committee reviewed a range of government reports, policy documents, and peer reviewed articles to supplement the evidence it gathered from submissions and hearings.

6 To access the transcripts of the Committee's hearings, visit:
[www.parliament.wa.gov.au/Parliament/commit.nsf/\(EvidenceOnly\)/56EB8419DC1AD17A4825814000116283?opendocument](http://www.parliament.wa.gov.au/Parliament/commit.nsf/(EvidenceOnly)/56EB8419DC1AD17A4825814000116283?opendocument).

Chapter 2

Overview Of WA's Intrastate Aviation Sector

Kununurra is farther from Perth than Adelaide.

2.1 The State Of Aviation In The State

Western Australia has Australia's oldest-serving scheduled passenger service and earliest established State civil aviation network. The first recorded flight in WA took place in 1911.⁷

In the past three decades, both passenger numbers and aircraft movements on WA routes have increased markedly.⁸ Actual passenger numbers on WA intrastate routes are not collected for unregulated routes.⁹ An indication of the changes in passenger numbers, however, can be ascertained by examining those using Perth International Airport (PIA), which peaked at 13 million passengers during 2013-14, but has tapered off to 12.4 million in 2016-17.¹⁰ Up until 2012-13, when a structural adjustment occurred in the State's resources and energy industry, PIA was the fastest growing capital city airport in Australia.¹¹

2.2 Travelling Safely Around Regional WA

RPT Services And Route Characteristics

The State's *Transport Coordination Regulations 1985* define regular public transport (RPT) services as air services "that operate according to a published schedule".¹²

7 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p20.

8 Ibid, p17.

9 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, *Transcript of Evidence*, 1 November 2017, p11.

10 Department of Infrastructure and Regional Development, *Aviation Statistics*, 17 February 2015. Available at: https://bitre.gov.au/publications/ongoing/airport_traffic_data.aspx. Accessed on 19 October 2017.

11 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p26.

12 State Law Publisher, *Transport Co-ordination Regulations 1985*, nd. Available at: slp.wa.gov.au/legislation/statutes.nsf/main_mrtitle_12647_homepage.html. Accessed on 13 October 2017.

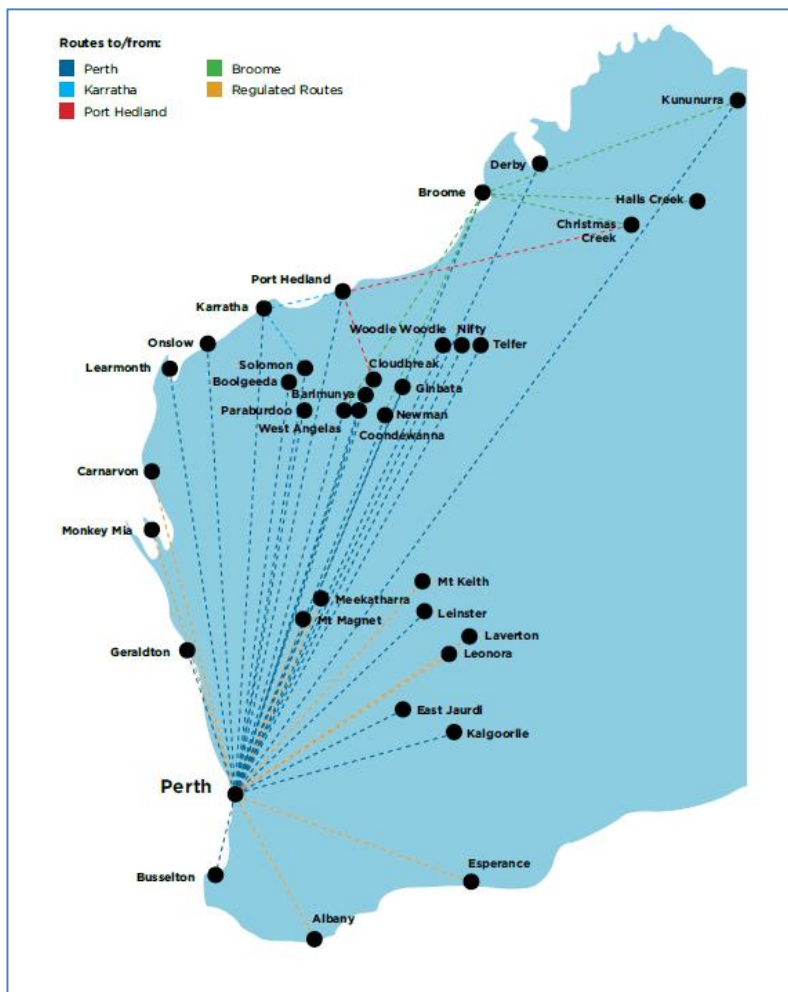
Chapter 2

Under CASA's Commonwealth legislation, a 'RPT service' is more narrowly defined as:

...operations involving transporting persons generally, or transporting cargo for persons generally, for hire or reward, in accordance with fixed schedules to and from fixed terminals over specific routes with or without intermediate stopping places between terminals.¹³

There are 26 airports (including PIA) serving RPT routes in Western Australia. Airlines serving RPT routes require operational licences issued by the WA Department of Transport (DoT). Figure 2.1 below shows these RPT routes, as well as charter ones.

Figure 2.1- WA's intrastate air routes¹⁴



13 AustLII, *Civil Aviation Regulations 1988 - REG 206 Commercial purposes (Act, s 27(9))*, nd, reg 206(1)(c). Available at: www7.austlii.edu.au/cgi-bin/viewdoc/au/legis/cth/consol_reg/car1988263/s206.html. Accessed on 15 November 2017.

14 Submission No. 70 from the Australian Airports Association, 28 July 2017, p7.

RPT air services to Busselton, Derby, Kambalda and Ravensthorpe ceased between 22 April 2015 and 27 February 2016.¹⁵ In its 2016 Annual Report, (delivered to the previous Liberal-National Government), the DoT reported against a Key Performance Indicator (KPI): *Percentage of regional airports receiving scheduled regular public transport air services*.¹⁶ This KPI measures the regional communities with populations of more than 500, which are within 250 kilometres of an airport accessible by a safe road, which provides two or more weekly RPT air services, or have access to other forms of public transport. In 2015-16 this figure dropped from 96% the previous year to 83.3%, reflecting the cessation of RPT services at these four airports.¹⁷

Of the current 22 regional towns receiving RPT services, all but three (Halls Creek, Kununurra, and Fitzroy Crossing) have their services connect with Perth.¹⁸

A number of witnesses characterised most of WA's RPT service regional air routes, as 'thin routes' that are 'pretty marginal' in terms of the economic return made by airlines.¹⁹ As discussed in Chapter 5 below, the main reason for this is the very small population being served by the RPT routes.²⁰

There are considerable differences both within and between WA's RPT routes. Individual routes are affected by factors such as passenger types and seasonality. Seashells Hospitality Group said a typical hospitality business in the North West "that stays open year round will run at 95% [occupancy] in July and August, between 60% and 70% September and October, down to 20% to 30% November through until March".²¹

WA is the only Australian jurisdiction where the dominant demand for air services on regional RPT routes is business (including the resources industry), but this varies significantly *between* routes. The resource and energy sector represents 80-90% of traffic on routes like Newman and Karratha²² but only 33% on the Broome route.²³

15 Department of Transport, *Annual report 2016*, 18 October 2017, p55. Available at: www.transport.wa.gov.au/mediaFiles/about-us/AR_P_Annual_Report_2015_16_full_report_revised_29Sept.pdf. Accessed on 3 November 2017.

16 Ibid, p37.

17 Ibid.

18 Submission No. 94 from the Department of Transport, 28 July 2017, p10.

19 Mr Jeff Gooding, CEO, Kimberley Development Commission, *Transcript of Evidence*, 21 August 2017, p7.

20 Submission No. 95 from Qantas Airways Ltd, 31 July 2017, p3.

21 Submission No. 16 from the Seashells Hospitality Group, 26 July 2017, p1.

22 Submission No. 95 from Qantas Airways Ltd, 31 July 2017, p5.

23 Mr Paul McSweeney, CEO, Broome International Airport, *Transcript of Evidence*, 22 August 2017, p1.

Chapter 2

Whilst no two routes are the same, based on the evidence presented to the Committee, there are some very broad groups that WA regional destinations currently fall into:

- Resource and Energy (R&E) routes: dynamics are driven by significant demand from the R&E sector, with smaller proportions of other 'community' or tourism travel. For example, Karratha, Port Hedland, Kalgoorlie and Onslow are all significantly driven by the R&E sector, with lower proportions of community/commuter or tourism-based travel.
- Community routes: air travel utilisation is more akin to 'traditional' public transport, for non-R&E business purposes (small to medium enterprises, government services, etc), commuter or private travel (health care, education/training, outbound tourism, family/personal emergencies). There are varying proportions of tourism-based travel on these routes. For example, in Kununurra, Albany and Esperance most travel is for business or personal matters, with varying proportions of tourism-related travel.
- Hybrid routes: air travel is a mixture of R&E, tourism and community travel in relatively equal proportion. For example, Broome is a major tourism-driven (and seasonal) air route, with a growing R&E sector, coupled with a degree of community travel.

As discussed later in this report, the Committee acknowledges that many regional communities are proactively seeking to diversify their economic base through tourism, which will help change the drivers for travel to and from individual destinations.

Finding 1

There are considerable differences between Western Australian regional destinations and their route supply-demand dynamics.

RPT Operators

The following airlines currently provide RPT air services on the State's regulated routes:

- Aviair;
- Regional Express (Rex);
- Skippers Aviation; and
- Qantas Airways Ltd, including its subsidiary Network Aviation.²⁴

24 Submission No. 94 from the Department of Transport, 28 July 2017, p10.

As well as the airlines above, the following have an Air Operators Certificate endorsed for RPT operations in WA:

- Airnorth;
- Alliance Airlines;
- Cobham Aviation;
- Network Aviation; and
- Virgin Australia.²⁵

Charter Flights Servicing The Resources Sector

In addition to RPT services, charter flights are also a significant component of WA aviation activity, with Bureau of Infrastructure, Transport and Regional Economics (BITRE) estimating they represent about 14% of domestic passenger movements through Perth Airport.²⁶ Almost all of these flights are to and from mine, or oil and gas sites, in the Pilbara, Kimberley and the Eastern Goldfields. As an example of the size of these operations, there are 13 certified non-government operated airports alone in the Pilbara region which closed-charter flights deliver their fly in-fly out (FIFO) workers to (see Figure 2.1 above).²⁷

In some instances, charter services operate through airports currently offering RPT services or are delivered to mining project airstrips in close proximity to RPT airports. This issue is considered in greater detail in Chapter 5 below.

Alternative Modes Of Transport

There are limited alternative modes of transport available to reach most regional and remote centres in WA.

Coach services provide passage to many regional centres in the State. All of the locations which the Committee visited are serviceable via a public coach service, but the service times mean that they are not a realistic alternative to most residents in remote areas in the North West. One submission noted that regional bus services often do not transport their passengers to remote communities which have an airfield, but are situated away from a main highway.²⁸ Integrity Coach Lines offers a daily service to 15 locations north of Perth, as far as Broome.²⁹ Its one-way fare for the two-day trip to

25 Ibid.

26 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p6.

27 Mr Greer Johnson, Executive Officer, Pilbara Development Commission, Email, 20 September 2017, p1.

28 Submission No. 2 from Mr Colin Scott, 26 June 2017, p1.

29 Integrity Coach Lines, *About Us*, nd. Available at: integritycoachlines.com.au/About-Us. Accessed on 12 October 2017.

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Broome is \$302,³⁰ compared to the cheapest Qantas *Red e-Deal* price for a three hour one-way fare to Broome from Perth of \$215.

However, for centres closer to Perth, coach services are well used. For Geraldton, the Committee was told of TransWA's seven-hour service to Perth which runs 2-3 times a day, "[p]eople with a Concession Card can travel Geraldton-Perth by coach for \$33.70, seven days a week. Even at the non-concession rate of \$67.40."³¹ By comparison, the cheapest Qantas *Red e-Deal* price for a one-hour one-way fare to Perth is \$198.³²

Kalgoorlie is the only major regional centre which is accessible via a daily public rail service as an alternative to the air service. The Committee was told that the *Prospector* service offered return fares of about \$160 and it was "mostly full" and is an integral part of the Kalgoorlie tourism industry.³³ By comparison, the cheapest Qantas *Red e-Deal* price for a return fare to Perth is \$490.³⁴

Road Travel Not Necessarily The Answer

Some regional centres, such as Geraldton, Kalgoorlie and Albany, are also close enough to Perth so that driving may prove a cheaper alternative to flying, especially for families. However, in the Kimberley and Pilbara regions, in the wet season the option to drive out from a town can be reduced as roads are closed, leaving flights the only option and "again prices go up quickly".³⁵

For the regional residents driving long distances in the case of emergency, being for family or ill health, the knowledge of high airfares only escalates their distress. The Western Australian Regional Capitals Alliance detailed their concerns about residents driving long distances, "the high cost of airfares means more road travel as a preferred option resulting in additional safety risks associated with long distance road travel".³⁶

Driving great distances to regional and remote centres further from Perth than Geraldton and Esperance is often not a genuine alternative to flying. For small businesses, driving may take an entire day, "which is very detrimental to those running their own businesses."³⁷ The Committee heard many accounts that driving is

30 Mr Bob Davis, Director, Corporate and Commercial Services, City of Greater Geraldton, Email, 5 October 2017, p1.

31 Ibid.

32 Qantas Airways Ltd, *Flights*, nd. Available at: [qantas.com/travel/airlines/flight-search/global/en?tvarRCL=AU-AU-en-](https://www.qantas.com/travel/airlines/flight-search/global/en?tvarRCL=AU-AU-en-). Accessed on 12 October 2017.

33 Mr Hugh Gallagher, CEO, Kalgoorlie–Boulder Chamber of Commerce and Industry Inc, *Transcript of Evidence*, 31 August 2017, p10.

34 Qantas, *Flights*, nd. Available at: [qantas.com/travel/airlines/flight-search/global/en?tvarRCL=AU-AU-en-](https://www.qantas.com/travel/airlines/flight-search/global/en?tvarRCL=AU-AU-en-). Accessed on 12 October 2017.

35 Submission No. 25 from Ms Ann Hobbs, 27 July 2017, p1.

36 Submission No. 59 from the Western Australian Regional Capitals Alliance, 28 July 2017, p4.

37 Submission No. 108 from Ms Paula Fletcher, 30 August 2017, p1.

undertaken out of necessity to avoid paying an expensive airfare, than the desire to drive. The *Western Australian State Aviation Strategy* notes:

*The sheer size and isolation of Western Australia mean there is little choice but aviation for travel between Perth and other States and between Perth and most of the State's major regional centres.*³⁸

For regional communities, with little opportunity for alternative travel modes to distant destinations such as Perth, their aviation services are seen as an essential public transport, akin to the access Perth residents have to buses and trains.³⁹

Finding 2

For most regional centres in Western Australia, there are limited alternative modes of travel to flying that are timely and safe.

2.3 Regulatory Oversight Of WA's Aviation Industry

The Commonwealth Government has historically largely held responsibility for the regulation of Australia's aviation services and national aviation policy. The State Government has a limited involvement in the sector and Local Government's role is largely constrained to managing the operation of their airport.

The Broader Powers Of The Commonwealth Government

The Commonwealth maintains responsibility for the majority of aviation-related matters in Australia, to ensure consistency between jurisdictions. There are three main Commonwealth agencies which oversee security, air traffic control, aircraft noise management, and capital city airports:

- Air Services Australia provide air navigation services;
- The Civil Aviation Safety Authority (CASA) oversee the safety regulation of civil air operations in Australia; and
- The Department of Infrastructure and Regional Development advises on the policy and regulatory framework for Australian airports and the aviation industry, administers the Government's interests in privatised airports under the *Airports Act 1996* and provides advice on the management of Australian airspace and on aircraft noise and emissions.⁴⁰

38 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p5.

39 Mr Stephen Gash, CEO, Shire of Derby/West Kimberley, *Transcript of Evidence*, 22 August 2017, p2.

40 Department of Infrastructure and Regional Development, 'Aviation', 16 December 2016. Available from: <https://infrastructure.gov.au/aviation/>. Accessed on 12 May 2017.

Chapter 2

The Australian Competition and Consumer Commission, in accordance with the *Airports Act 1996* and the *Competition Consumer Act 2010*, conducts annual monitoring of the four largest capital city airports, which are leased from the Commonwealth on long-term leases.⁴¹

The State Government's Role In Aviation

The State Government's role in aviation is to ensure regular public transport (RPT) air services to WA's cities and principal towns. It develops its own policies with regard to the aviation sector; issues licenses to operate on all RPT routes; and decides whether to regulate discreet routes (i.e. how to intervene to address perceived market failures).

The Department of Transport (DoT) manages the State Government's aviation policy, licensing and regulatory levers.

The State's Policy Function

In February 2015, the previous Liberal-National State Government published the inaugural *Western Australian State Aviation Strategy*.⁴² The Strategy was developed by DoT in synergy with the Commonwealth's aviation policy⁴³ and links to other State transport sector strategies, such as *Transport @ 3.5 Million*, which provides "a vision for Perth's future transport network".⁴⁴

The development of the *State Aviation Strategy* involved liaison with a diverse range of stakeholders, including individuals, government agencies, airports, airlines and resources and energy sector companies.⁴⁵ Much of the Strategy focused on governance issues and the future development of airport infrastructure. It also addressed tourism and aviation route development and the development of affordable air services. The Strategy outlined the challenging nature of providing aviation services in WA, especially the significant distances involved:

Within the State, Kununurra is farther from Perth than London is from St Petersburg. Beyond the State, Perth is closer to Jakarta than it is to

41 Submission No. 35 from the Shire of East Pilbara, 27 July 2017, p5.

42 The then-Minister for Transport initiated the development of the *State Aviation Strategy* in December 2011.

43 The *Federal Aviation White Paper 2009* aims to provide planning, regulatory and investment certainty for the aviation industry to 2020 and beyond. Submission No. 64 from Gascoyne Development Commission, 28 July 2017, p7.

44 Department of Transport, *Transport @ 3.5 Million*, 23 October 2017. Available at: www.transport.wa.gov.au/projects/perth-transport-plan-for-3-5-million.asp. Accessed on 3 November 2017.

45 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p5.

*Canberra or Sydney, while the distance between Perth and Brisbane is greater than that between London and Cairo.*⁴⁶

The Strategy recognised that WA's regional airfares are "generally the highest in Australia, both in absolute terms and in terms of cost per route kilometre."⁴⁷ In an effort to reduce airfares between regional centres, the previous State Government's Strategy committed to:

- encourage low-cost airlines to begin operating intrastate;
- review and deregulate RPT routes where possible, thereby increasing competition; and
- seek agreement from the Commonwealth that costs borne by passengers at regional airports for security be spread across the entire network.⁴⁸

The Strategy's aim was to provide scope for:

- the ability of the metropolitan, regional and remote airports to service current and projected passenger, aircraft and airfreight movements over the next 30 years;
- the governance of regional airports;
- aviation infrastructure funding at regional airports;
- land planning and development controls, to ensure the growth of aviation services to meet the State's needs is not inappropriately restricted; and
- the service of the State's resources and tourism sectors.⁴⁹

The development of the Strategy was an important planning initiative of the previous Government. Unfortunately, the process began in 2011, with much of the data gathered in 2012 from submissions and public forums, before the draft was released in 2013 for comment.⁵⁰ This meant that the data the Strategy was based on had been collected before the structural adjustment in the State's R&E sector in 2012-13⁵¹ and the subsequent dramatic fall in passenger movements at many regional airports, and some three years prior to its publication.

46 Ibid, p17.

47 Ibid, p13.

48 Ibid, pp69-79.

49 Ibid, p18.

50 Mr Peter Ryan, Acting Executive Director, Transport Strategy and Reform, Department of Transport, Email, 21 September 2017, p1.

51 This is discussed in more detail in Chapter 5 below.

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The Strategy is due for review in 2020.

The State's Licensing Function

The *Transport Coordination Act 1966* (the Act) and the *Transport Coordination Regulation 1985* (the Regulations) are the governing legislative instruments for intrastate air routes in WA.

Under the Act, the Transport Minister can issue licences for up to five years to aircraft operating for commercial purposes in Western Australia.⁵² In granting a licence, the Minister may consider, amongst other things, “the necessity for the service proposed to be provided and the convenience that would be afforded to the public by the provision of the proposed service.”⁵³ Conditions can be attached to licences, including that “aircraft be operated only upon specified routes or in a specified area”⁵⁴ or any other matters considered to be in the public interest.⁵⁵ Currently most of the licences carry no conditions but the State Government may change licence conditions at any time during the licence’s term.⁵⁶

During 2016-17, DoT removed the need for operators to licence all aircraft to just those that required regulation or monitoring. This was done to reduce ‘regulatory burden’ on the sector and reduced the number of operators requiring a licence from 56 to 14.⁵⁷

Private charter flights do not currently require a licence to operate.⁵⁸ They serve mainly the resource sites at private airstrips constructed by mining companies under a State Agreement Act (see Figure 2.1 above). The Department of Mines, Industry Regulation and Safety has included in its Mining Licence Application process a step that requires applicants to notify whenever they are proposing the construction of a new airstrip at a mine site.⁵⁹

52 *Transport Coordination Act 1966*, s43A; Department of Transport, *Review of Regulated Regular Public Transport Air Routes in Western Australia: Final Report 2015*, Perth, Western Australia, 2015, p16.

53 *Transport Coordination Act 1966*, s45(1)(a).

54 *Ibid.*

55 *Ibid.*, s47(1).

56 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 1 November 2017, p11.

57 Department of Transport, *Annual Report 2016-17*, 16 August 2017, p44. Available at: www.transport.wa.gov.au/mediaFiles/about-us/AR_P_Annual_Report_Full_report_2016_17_d.pdf. Accessed on 10 November 2017.

58 Submission No. 94 from Department of Transport, 28 July 2017, pp8-9.

59 Department of Transport, *Annual Report 2015-16*, 18 October 2017, p21. Available at: www.transport.wa.gov.au/mediaFiles/about-us/AR_P_Annual_Report_2015_16_full_report_revised_29Sept.pdf. Accessed on 3 November 2017.

The State's Regulatory Function

In addition to its general licensing power, the State Government can also intervene in the market and regulate individual routes. In the WA aviation context, 'regulation' means that the Government grants one airline a monopoly over a route for a specific period, usually after conducting a tender process. DoT said it collaborates with the Department of Primary Industries and Regional Development during tender processes "in order to understand and include and respond positively to the different needs of different sectors in the market."⁶⁰

A Deed of Agreement is executed between the Government and the successful tenderer at the conclusion of the tender process. The Deed outlines the terms and conditions of the monopoly service for the route and requires that the airline:

- charge no more than the maximum airfare for each route; as set out in the agreement;
- participate in biannual meetings with stakeholders;
- meet on-time performance benchmarks; and
- report monthly statistics on passenger numbers, load factors, airfares and on-time performance to the DOT.⁶¹

Prior to the year 2000, all WA routes were largely unregulated; however, following the collapse of Ansett Australia in September 2001, the State Government adopted a new approach for marginal routes. There are now both regulated and unregulated RPT routes.⁶²

Western Australia has seven regulated RPT routes serving 12 towns- Albany, Esperance, Carnarvon, Kalbarri, Monkey Mia, Leinster, Wiluna, Meekatharra, Mount Magnet, Leonora, Laverton and Exmouth. Regulation ensures an adequate service to these smaller towns.⁶³

The *State Aviation Strategy* proposes that the Government should regulate an air route when it judges it to have an unacceptably high risk of market failure, and the operator of the RPT route could withdraw from it. According to the Strategy, market failure occurs on routes where traffic is considered too light to sustain open competition between two or more airlines, and the frequency, reliability, quality and affordability of

60 Mr Brett Hughes, Executive Director, Transport Strategy and Reform, Department of Transport, *Transcript of Evidence*, 9 August 2017, p12.

61 Submission No. 94 from the Department of Transport, 28 July 2017, p20.

62 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p73.

63 *Ibid*, p76.

Chapter 2

air services is compromised. Given their critical nature to communities remote from Perth, the withdrawal of RPT services could undermine the wellbeing of the affected communities.⁶⁴

Route regulation does not guarantee profitability for the monopoly operator – airlines must still manage their operations to realise their internal business case. But nor does regulation automatically mean that routes are unviable or unprofitable. Most RPT air routes in WA, even those that are marginal and have been regulated over the years, have operated successfully without government subsidies.⁶⁵

On unregulated routes, a less ‘interventionist’ paradigm operates, based on the belief that competitive market forces will operate to place downward pressure on prices and determine the appropriate scheduling for a route. DoT confirmed that the approach of the previous Government in its *State Aviation Strategy* was:

*...a light-handed approach to regulation of RPT air routes, where feasible. Aviation in WA is primarily a commercial market enterprise that the Government should not interfere with unless there is a clear reason, taking all factors and interests into account.*⁶⁶

The following RPT routes are currently unregulated:

- Perth-Broome;
- Perth-Geraldton;
- Perth-Kalgoorlie;
- Perth-Karratha;
- Perth-Kununurra;
- Perth-Newman;
- Perth-Onslow;
- Perth-Paraburdoo;
- Perth-Port Hedland;
- Perth-Ravensthorpe; and
- Broome-Fitzroy Crossing- Halls Ck.⁶⁷

Most unregulated RPT flights to larger centres, such as Broome, Karratha and Kalgoorlie, are operated by both Virgin Australia and Qantas. The Perth-Geraldton route is an example of a previously regulated route that has been recently deregulated, while the Perth-RAAF Learmonth/Exmouth route is ‘lightly’ regulated by DoT, as it is served only by Qantas.⁶⁸

Finding 3

The scope for State Government intervention in the Western Australian aviation market is limited.

64 Ibid, p13.

65 Submission No. 94 from the Department of Transport, 28 July 2017, pp9-10.

66 Ibid, p9.

67 Ibid, p10.

68 Ibid.

A Limited Role For Local Government Authorities

Local Government's role in the aviation sector is largely limited to the operation and long-term planning of regional airports, predominantly in their capacity as regional airport owners.⁶⁹

Of WA's 25 RPT regional airports, only Broome International Airport (BIA), Port Hedland International Airport and Paraburdoo Airport are privately operated or owned facilities.⁷⁰ The BIA was purchased from the Commonwealth Government by a private owner in the early 1990s, when most of the State's other regional airports were transferred to a local government authority (LGA). Port Hedland International Airport was leased from the Town of Port Hedland to the Port Hedland International Airport Asset Pty Ltd on the 11th March 2016 for a period of 50 years.⁷¹ Paraburdoo is managed by Aerodrome Management Services Pty Ltd as a service provider to Pilbara Iron Pty Ltd (otherwise Rio Tinto).⁷²

The State Government currently has no effective power to regulate the prices charged at regional airports for landing and passenger fees.⁷³ There is also no mechanism for the State to require, review or approve airport master plans and there is no specific State Government requirement of LGAs to plan their airports for financial sustainability. The DoT, however, found that of the 12 major regional airports reviewed in developing the *State Aviation Strategy*, all had master plans except for the airports at RAAF Curtin/Derby and RAAF Learmonth/Exmouth.⁷⁴

69 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p34.

70 Ibid, p36.

71 Mr Rod Evans, General Manager, PHIA Operating Company Pty Ltd, Letter, 12 October 2017.

72 Mr Kevin Thomas, Managing Director, AMS Pty Ltd, Email, 3 October 2017, p1.

73 Productivity Commission, *Submission 17, Western Australian Government*, 2011, p5. Available at: pc.gov.au/data/assets/pdf_file/0004/19948/sub017.pdf. Accessed on 12 October 2017.

74 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p36.

Chapter 3

Are Regional Airfares Actually High?

WA's regional airfares are "generally the highest in Australia, both in absolute terms and in terms of cost per route kilometre."⁷⁵

3.1 Introduction

Airline industry pricing is notoriously complex and opaque. A range of variables are applied to produce fares, including local, national and international route and market dynamics. On regional RPT routes, it is important to distinguish between the pricing approach for regulated routes, where prices cannot exceed an agreed maximum fare, and unregulated routes, where operators are free to set prices and are theoretically constrained only by competitive forces (as outlined in Chapter 2 above).

Public information on cost structures and pricing mechanisms is extremely limited – particularly on unregulated routes. Community perceptions that airfares are 'too high' are hard to test – a situation which is not assisted by a general resistance from airlines to publicly disclose pricing information.⁷⁶

Unlike most things Western Australians buy in their daily life, airfares for particular flights and routes can change by the day, if not the hour, with airlines offering a range of fare classes. This applies on both regulated and unregulated routes. There are, however significant differences in pricing outcomes and community sentiment for regulated and unregulated routes.

3.2 Pricing On Regulated Routes

As outlined in Chapter 2 above, on regulated routes a single monopoly provider agrees to a particular pricing structure, negotiated as part of a tender process with the Department of Transport (DoT). Associate Professor Jianhong Xia from Curtin University presented data prepared especially for this Inquiry which showed that regulated routes in WA have lower and less volatile airfares than unregulated routes.⁷⁷ This proposition was put to operators on unregulated routes (and they were invited to provide supplementary submissions), and was not refuted.

75 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p13.

76 With the notable exception of Rex, as discussed further in this Chapter.

77 Submission No. 45 from Associate Professor Jianhong Xia, Department of Spatial Sciences, Curtin University, 27 July 2017, p1.

Chapter 3

Finding 4

The evidence before the Committee suggests that airfares on regulated routes are lower and less volatile than on unregulated routes.

The Committee did not receive any submissions expressing discontent with prices on regulated routes. As noted in Chapter 1, the Committee did not schedule a community meeting in Esperance and then was forced to cancel a community meeting in Albany due to the lack of public response.

There are two potential factors explaining this.

Firstly, Regional Express (Rex) has undertaken a very proactive community engagement model. On the evidence presented to the Committee, Rex exceeds the requirements in its Deed of Agreement. Moreover, in its stakeholder forums, Rex presents information to the community regarding costs, pricing and passenger numbers, enabling the community to assess the operator's conduct with respect to pricing. The DoT observed that Rex had been very forthcoming about its airfares with the residents of these two towns in the six-monthly Community Consultative Group meetings, and that this had changed the attitude of these communities to the level of the airfares.⁷⁸

Finding 5

The terms of the Deeds of Agreement for regulated RPT routes ensure the availability of information about airfares, costs and passenger numbers to the public.

Secondly, Rex has worked collaboratively with the local community to develop a 'community fare', introduced when Rex took over these two routes from Virgin Australia in 2016. The fare is available on both its Albany and Esperance routes and costs \$129 for a one-way ticket to Perth. This fare is available for flights booked more than 60 days in advance of departure, or within the last 24 hours before departure.⁷⁹

The collaborative development model for this fare, the engagement with the local community and joint contribution to costs management (the local governments have also chosen to cap their landing fees), has considerably removed the 'heat' from the airfare issue in these regulated destinations.

Finding 6

Community outrage is lower when airlines proactively engage with regional communities, collaborate and innovate to develop service offerings and offer reasonable information to the community regarding costs, passenger numbers and fares.

78 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 1 November 2017, p9.

79 Mr Matthew Scott, CEO, Shire of Esperance, *Transcript of Evidence*, 30 August 2017, p3.

3.3 Pricing On Unregulated Routes

The fare methodology, transparency, pricing outcomes and community sentiment on regulated routes stand in stark contrast to the evidence before the Committee for unregulated routes. Unregulated fare prices are theoretically subject to competitive forces and market discipline. On unregulated routes, airfares are set by the individual operator and are theoretically constrained by the discipline of competitive market forces.

The operators on unregulated routes all claimed that their prices were subject to market forces. Qantas outlined its approach to the setting of fares:

Pricing is an output of supply and demand and the methodology Qantas adopts for regional routes in WA is the same as it uses for all other routes, in all other markets. Moreover, it is effectively the same as used by all airlines, hotels and rental car companies across the world.

At its core is a simple supply and demand equation. An aircraft has a finite amount of supply and airlines aim to cover the high cost of operation by matching supply with demand.⁸⁰

Unregulated Fare Prices Are Automatically Determined By A Yield Management System

The Committee was told by all of the airlines flying RPT routes in Western Australia that they use an automated 'yield management system' (YMS) to provide prices to individuals on their web sites, and to travel agents. The YMS computer program is supported by a large team of revenue and yield managers "who might come in, and go in and pick and change different aspects at different times".⁸¹

Virgin Australia's YMS uses 12 price-steps, applied from when the flight is first offered to the market through to the day of travel:

...ticket fares ...are structured in what is called a booking class, so there is different pricing on a booking class, from the top, which is called a Y-class fare, through to our sale fares, which are S-class. It is not alphabetical, but that is the process, so there are about 12 steps in the price structure on the way through, and that is how availability is controlled in terms of different classes, so a Y-class would have full

80 Submission No. 95A from Qantas Airways Ltd, 2 November 2017, p3.

81 Ms Claire Werkmeister, Director, Aviation Development and Policy, Tourism WA, *Transcript of Evidence*, 6 September 2017, p6.

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availability for the aircraft, and the sale fares would have a limited availability...⁸²

Each major airline's YMS draws sales data from the 'global distribution system' (GDS) hosting that airline's flights. GDSs are global, automated, ticketing systems that airlines use across all of their routes, whether they are regional, domestic or international.⁸³

Virgin Australia is hosted on the Sabre GDS, while Qantas utilises Amadeus.⁸⁴ Rex also confirmed that "[w]e are hosted in the global distribution systems, so we are fully across all the GDSs with Sabre, Galileo, Amadeus et cetera."⁸⁵ However, Skippers Aviation is not hosted on any of these global systems. The Skippers' CEO told the Committee that, after trying to be co-hosted on a GDS by Qantas, Virgin and Airnorth, his view of the system was:

With this GDS, I just say to people, "When did you last look up the phone book?" If you want to know how to go from here to there, you just google it and it tells you who goes there and everything else. Most people book online; it is just straight booking online.⁸⁶

The House of Representatives Standing Committee on Transport and Regional Services 2003 Inquiry into commercial regional aviation services in Australia was told that in 1993 the then-Trade Practices Commission granted the two of the global computerised reservation systems, Galileo and Sabre, an exemption from the restrictive trading provisions of the *Trade Practices Act*. This exemption was allowed on the condition that a code of conduct applied. The code of conduct was intended to enable smaller, regional operator's services to be displayed alongside the services of the larger competitor.⁸⁷

The Transport and Regional Services Committee considered that the competitiveness of computerised reservation systems warranted further investigation and recommended that the Australian Competition and Consumer Commission "[i]nvestigate the anti-

82 Mr Anthony Stokes, General Manager, Finance, Virgin Australia, *Transcript of Evidence*, 11 September 2017, p4.

83 Ms Claire Werkmeister, Director, Aviation Development and Policy, Tourism WA, *Transcript of Evidence*, 6 September 2017, p6.

84 Wikipedia, *Computer reservation system*, 21 September 2017. Available at: https://en.wikipedia.org/wiki/Computer_reservation_system#Major_systems. Accessed on 6 October 2017.

85 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p11.

86 Mr Stan Quinlivan, CEO, Skippers Aviation Pty Ltd, *Transcript of Evidence*, 18 September 2017, p3.

87 House of Representatives Standing Committee on Transport and Regional Services, *Regional Aviation and Island Transport Services: Making Ends Meet*, The Parliament of the Commonwealth of Australia, Canberra, November 2003, p54.

competitive behaviour of the operators of computerised reservation systems as it affects regional airlines".⁸⁸ The recommended inquiry was not undertaken.

As well as the GDS, the Virgin Australia's YMS uses data from:

*...historical booking curves, we have got a revenue management tool that works on forecasting demand and forecasting the way through. That takes into account all those factors, and the factors of the aircraft, and then places available seats in different price points along the way.*⁸⁹

In a similar fashion to the hotel industry, airfares are generally higher during peak periods, such school holidays, and at particular times of the day, such as morning and evening departures. Qantas said that another general rule is that "[l]ower fares are found further from departure, and on low-demand flights. Higher-priced fares are found closer to departure on high-demand flights."⁹⁰

Finding 7

All airlines flying RPT routes in Western Australia use an automated yield management system to set prices for fares offered to the general public, which may change by the day, but are generally higher closer to departure.

BITRE collects data each month on domestic airfares as published on airline web sites for the top 70 routes in Australia, based on traffic volume. For each route, BITRE records the lowest fare available in each fare class on the last Thursday of the survey month. In its submission, the Department of Infrastructure and Regional Development reported that for Restricted Economy airfares for the period July 2016 to June 2017:

*...Geraldton-Perth was the most expensive of the intra-Western Australian routes in terms of dollars per kilometre at \$0.75 and was the 14th most expensive route nationally...The most expensive route nationally was Canberra-Sydney at \$1.40 ...The cost per kilometre for Perth-Newman was \$0.64, for Paraburdoo-Perth it was \$0.55 and for Karratha-Perth it was \$0.54. The Perth-Sydney route had the lowest cost per kilometre of all the surveyed routes at \$0.13.*⁹¹

Western Australia isn't the only jurisdiction where regional airfares are claimed to be high. The ABC *FactCheck* program found that "[d]epending on when you book and

88 Ibid, pxxi.

89 Mr Anthony Stokes, General Manager Finance, Virgin Australia, *Transcript of Evidence*, 11 September 2017, p4.

90 Mr Guy Waddell, Head of Domestic Revenue Management, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p5.

91 Submission No. 120 from the Department of Infrastructure and Regional Development, 29 September 2017, p2.

Chapter 3

dates of travel, it can be more expensive to fly out of Alice Springs even to Darwin than it is to make an international trip from a capital city.” This program also found that many international flights from capital cities had prices in the range \$0.05 to \$0.10 per kilometre, a much lower rate than for intra-WA routes.⁹²

Airlines Claim That Fares Are Now Cheaper Than Before The Peak Of The Mining Boom

The Committee heard from both major airlines offering flights to major regional centres such as Broome and Karratha that, despite the recent dramatic fall in passenger traffic, the average and sale fares are now lower. Qantas told the Committee “as a fact, our nominal and real retail fares in intra-WA have come down since the peak of the mining boom.”⁹³

Virgin Australia gave evidence to the Committee that “our sale fares on seven of the eight intrastate routes that we operate [in WA] are lower today than they were three years ago.”⁹⁴

Qantas claimed that:

*...in real terms as at June 2017 all fare categories [in WA] are lower than they were in 2003. Best discount economy fare, for example, was 38.5% lower, despite Australian CPI increasing by 32 points over the same period.*⁹⁵

3.4 The Community Perception is of High Prices, Especially For Last Minute Bookings

While the airlines operating on unregulated routes stated to the Committee that their regional fares are now lower than before the peak of the mining boom, direct proof of these assertions was not provided. Qantas, in particular, refused during its hearing to provide the Committee with information on its pricing, claiming ‘commercial confidentiality’, despite the Committee’s offer to receive the information on a confidential basis. Qantas later provided supplementary information to the Committee

92 ABC, *Fact check: Is it cheaper to fly overseas than get out of Alice Springs?*, 3 August 2017. Available at: abc.net.au/news/factcheck/2017-08-03/fact-check-is-it-cheaper-to-fly-overseas-than-alice-springs/8754958. Accessed on 11 October 2017.

93 Mr Guy Waddell, Head of Domestic Revenue Management, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p11.

94 Ms Jane McKeon, Group Executive, Government Relations, Virgin Australia, *Transcript of Evidence*, 11 September 2017, p7.

95 Mr Andrew David, CEO, Qantas Domestic, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p2.

on a ‘commercial-in-confidence’ basis that confirms its claim that average one-way fares to Kalgoorlie, Karratha and Broome were lower in 2016-17 than in 2011-12.⁹⁶

The Committee did, however, receive many submissions, and consistent evidence in hearings across the north of the State, that fare data is not transparent and heard claims that airlines were ‘gouging’ their customers.⁹⁷ This was particularly the case for fares booked close to the date of departure for urgent trips. The Committee didn’t receive any complaints about the cost of airfares from residents and organisations in either Albany or Esperance – both regulated routes and subject to the requirements outlined in Chapter 2 above.

A common complaint to the Committee was the high cost of urgent decisions made to purchase a ticket at the last moment for family emergencies:

If people have to travel to Perth with little notice for an emergency (such as a family funeral), the high cost of the airfare adds enormous emotional pressure and stress to their already difficult situation.⁹⁸

One witness said, “the airlines pray on the BBS—the business, the bereaved and the sick, those who have got to fly on short notice.”⁹⁹

Another complaint was the lack of transparency and difficulty in understanding how the price of flights were calculated. For example, Ms Radisich submitted that “[r]egional airfares have been a source of irritation for many years, it is impossible to understand the price structure and the huge variations in fares.”¹⁰⁰ DoT summarised this problem as one “the general community faces in respect of airlines is, sure, they can see what the price is on the [airline’s] website, but what they cannot see is the actual movement in the average price paid.”¹⁰¹

The final grievance raised by residents echoed the BITRE and ABC *FactCheck* observations noted above, regarding relative costs and charges on different routes. In the absence of information from the airlines regarding cost stacks or pricing methodologies on unregulated ‘competitive’ routes, complainants frequently pointed to cost-per-kilometre comparators with similar-length routes in the eastern states

96 Submission No. 95A from Qantas Airways Ltd, 2 November 2017, p7.

97 Mr John Walker, CEO, City of Kalgoorlie–Boulder, *Transcript of Evidence*, 31 August 2017, p6.

98 Submission No. 102 from the Karratha Districts Chamber of Commerce & Industry, 23 August 2017, p3.

99 Mr Robert Menzies, Executive Manager, Infrastructure, Broome International Airport, *Transcript of Evidence*, 22 August 2017, pp8-9.

100 Submission No. 7 from Ms Dorothy Radisich, 24 July 2017, p1.

101 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 9 August 2017, p4.

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when commenting on the relative high cost of WA regional airfares. Residents noted that WA's regional flights were significantly more expensive.¹⁰²

In its submission, the City of Karratha offered four routes on the east coast of Australia of a similar length to the Perth to Karratha route that were flown by both Qantas and Virgin Australia at about half the price of fares on the Perth to Karratha route.¹⁰³

Australia's North West Tourism offered the Committee Qantas' fare class information for the Perth-Broome and Sydney-Cairns routes (see Table 3.1 below), which indicate a substantial higher cost for the WA route in all 10 fare classes. Both of these routes are flown in a Boeing 737 aircraft and between a capital city and a major tourist destination.¹⁰⁴

The Qantas fare class figures provided by Australia's North West Tourism for the Perth-Broome route are within \$5-\$40 of those later provided to the Committee by Qantas on a 'commercial-in-confidence' basis.¹⁰⁵

Table 3.1- Comparison of Qantas fare class prices on WA (PER-BME) and eastern State's (SYD-CNS) tourist routes¹⁰⁶

Fare Class	Perth-Broome route (\$)	Sydney-Cairns route (\$)	Broome fare cost compared to Cairns fare
Y	1,208	684	1.77
B	1,027	554	1.85
H	828	438	1.89
K	724	384	1.89
M	624	344	1.81
L	538	318	1.69
V	476	288	1.65
S	403	252	1.60
N	341	223	1.53
Q	275	193	1.42

The major airlines would argue that the Sydney-Cairn's fares are lower because Cairns has a much larger population than Broome's (140,000 versus 16,000 respectively), and a larger number of passengers using its airport than Broome (4.9 million annually versus 0.36 million respectively).

However, Australia's North West Tourism also provided a Qantas fare class comparison for the tourist route of Sydney-Hamilton Island in comparison to the Perth-Broome

102 Submission No. 4 from the City of Karratha, 12 July 2017, p4.

103 Ibid, p3.

104 Submission No. 68 from the Australia's North West Tourism, 28 July 2017, p5.

105 Submission No. 95A from Qantas Airways Ltd, 2 November 2017, p6.

106 Submission No. 68 from the Australia's North West Tourism, 28 July 2017, p5.

route. Only 1,300 people live on Hamilton Island and its airport serves 0.50 million passengers a year, not much more than Broome's. All of the 10 quoted fare classes for the Sydney-Hamilton Island route are less expensive than the Perth-Broome route (see Table 3.2).¹⁰⁷

Table 3.2- Comparison of Qantas fare class prices on WA (PER-BME) and eastern State's (SYD-HTI) tourist routes¹⁰⁸

Fare Class	Perth-Broome route (\$)	Sydney-Hamilton Island route (\$)	Broome fare cost compared to HI fare
Y	1,208	706	1.71
B	1,027	546	1.88
H	828	396	2.09
K	724	345	2.10
M	624	316	1.97
L	538	285	1.89
V	476	255	1.87
S	403	223	1.81
N	341	200	1.70
Q	275	179	1.54

A resident from Kununurra submitted information to the Committee of his quote for a return economy flight to Perth for business that would have cost \$1,429, if booked three weeks from the departure date. However, he also had an opportunity to attend a business meeting in Kuala Lumpur (KL) Malaysia at the same time and was able to book the Kununurra-Perth-Singapore-KL return flight via Singapore Airlines for a total of just \$1,087.¹⁰⁹

The results of the BITRE national survey of airfares provided to the Committee confirm that the passenger cost per kilometre for intra-Western Australian routes are often significantly higher when compared with other interstate routes of similar distance. Comparative data from BITRE for selected routes are shown in Table 3.3 below and indicate a premium for WA routes of 50-80% for longer routes.

BITRE notes that distance is only one of many factors that affect the economics of operating an air service. Passenger volumes and airport charges are other important factors in determining the cost of an airfare.¹¹⁰

107 Ibid, p6.

108 Ibid.

109 Submission No. 112 from Mr Charlie Sharpe, 14 August 2017, p1.

110 Ibid.

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Table 3.3- Comparison of costs for similar length routes between WA and eastern State's airports¹¹¹

WA route	Distance	Cost per km	Eastern State route	Distance	Cost per km
Perth-Broome	1,677 km	\$0.36	Sydney-Townsville	1,690 km	\$0.20
Perth-Port Hedland	1,312 km	\$0.50	Adelaide-Alice Springs	1,316 km	\$0.33
Perth-Kalgoorlie	538 km	\$0.69	Newcastle-Gold Coast	539 km	\$0.44
Perth-Geraldton	370 km	\$0.75	Sydney-Wagga Wagga	367 km	\$0.89

Finding 8

Data provided by the Bureau of Infrastructure, Transport and Regional Economics indicate that the passenger cost per kilometre for intra-Western Australian routes are often significantly higher compared with other national routes of similar distance.

Qantas defended its approach to setting fare levels for routes to regional WA towns and explained that the different costs between flights of a similar length was chiefly about the difference in the number of passengers carried on each route:

...increase those numbers, you get greater economies of scale, you can get more asset utilisation out of your aircraft; the more you fly them, the more you are spreading your fixed costs. The bigger aircraft means you have a lower unit per seat cost, but you can only put bigger aircraft in if you can fill them. It is pointless flying around a large aircraft that is half-full or 30% full.¹¹²

Qantas confirmed to the Committee that they too were aware of claims in regional WA of high airfares, and had responded in early 2017:

We have run focus groups in Mount Isa, Broome and Karratha. We have listened and we do understand those concerns, which is why we made the announcement the week before last of this 12-month trial which brings into effect a 30% discount at the top of the [fare] range for

111 Submission No. 120 from the Department of Infrastructure and Regional Development, 29 September 2017, p2.

112 Mr Andrew David, CEO, Qantas Domestic, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p9.

*residents, 10% at the bottom end—80% of our fares are sold in that bottom end.*¹¹³

Rex agreed with Qantas about the basic issue behind high regional airfares in WA:

*...regional airfares on thin routes are condemned to be more expensive than the equivalent fares offered on high volume and passenger number routes that are operated by larger jet aircraft due to the inefficiencies and high costs associated with regional air travel; this is true the world over.*¹¹⁴

The Community Perceives That Market Forces Are Not Operating To Constrain Airline Pricing Practices

Throughout the course of the inquiry, the Committee received an abundance of evidence from stakeholders questioning the extent to which market forces were operating on unregulated routes to reduce airfares. For example, the Karratha Chamber of Commerce and Industry provided an example of a flight with a very low load of passengers, but the fare was very expensive:

*...Qantas and Virgin seem to be averse to make cheaper flights available when load factors are low—it is called ‘seat dumping’—as people hold out for cheaper seats. This leads to the perverse situation, ...where an airline would prefer to fly half-full rather than generating some income through offering cheaper flights at real short notice. ...You are sitting on the plane, you know you have just paid—the last one I had was \$813 or \$789 or something plus a bit return—and there were about 10 of us on the plane.*¹¹⁵

Additionally, a tourist operator said there was market failure in Broome because the capacity constraint provided by smaller planes flying fewer times each week meant the airlines were not putting on the extra services to meet the demand that existed.¹¹⁶

The Broome Chamber of Commerce and Industry highlighted the lack of competition due to small passenger numbers, “it is a duopoly and there certainly is not a chance for any further competition given the current numbers of people who are flying here at the price points that are available.”¹¹⁷ The City of Karratha agreed that the existence of a

113 Ibid, p3.

114 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p2.

115 Mr John Lally, CEO, Karratha and Districts Chamber of Commerce and Industry, *Transcript of Evidence*, 23 August 2017, p7.

116 Mr Michael Leake, Manager, Habitat Resort Broome, *Transcript of Evidence*, 22 August 2017, p6.

117 Mr Peter Taylor, President, Broome Chamber of Commerce and Industry, *Transcript of Evidence*, 22 August 2017, p3.

Chapter 3

third RPT service provided by Alliance Airlines “three to four years ago” had meant lower prices than those currently provided by the duopoly of Qantas and Virgin.¹¹⁸

... And The Airlines Aren’t Making Their Own Case Heard

In the absence of information from the major airlines with respect to cost structures and fare construction, it is difficult for the Committee to draw the conclusion that airlines are genuinely setting ‘fair’ prices for intrastate travel on unregulated routes. There is undoubtedly a strong sentiment in the community that fares are too high and both anecdotal evidence and the Curtin University study (referred to in section 3.2 above) suggest that prices are higher and more volatile on unregulated routes.

3.5 Pricing For Charter Flights

Before moving on to the impacts that high airfares have on regional communities, the pricing approach on charter flights is also worthy of mention, as these flights appear to have both direct and indirect effects on RPT fares. Resource companies can purchase block bookings of seats on RPT flights as well as charter whole flights which are not accessible to the public (examined in more detail in Chapter 5 below). Inpex told the Committee it does both, and while mainly arranging block bookings:

...on 11 occasions to date we have chartered the Virgin 100-seat F100 aircraft to avoid impacting the travelling public. This included during July school holidays at the height of Broome’s tourism season.¹¹⁹

The Committee received information from Qantas with respect to their pricing of charter flights:

A charter arrangement sees a customer secure exclusive use of all of the available seats on an aircraft. Qantas is not particularly active in the WA charter business, with only a small number of charter flights to Ginbata Airport (Roy Hill) for Hancock Prospecting and Christmas Creek, Solomon and Cloud break for Fortescue Metals Group.¹²⁰

Similarly, Virgin said that it offers limited regular closed-charter flights each week to just two towns.¹²¹ Most of the closed-charter flights are offered by specialist airlines

118 Mr Simon Kot, Director, Strategic Projects and Infrastructure Services, City of Karratha, *Transcript of Evidence*, 23 August 2017, p9.

119 Mr William Townsend, General Manager, External Affairs and Joint Venture, INPEX, *Transcript of Evidence*, 11 September 2017, p3.

120 Submission No. 95A from Qantas Airways Ltd, 2 November 2017, p5.

121 Ms Jane McKeon, Group Executive, Government Relations, Virgin Australia, Letter, 20 October 2017.

focusing on the FIFO industry, such as Cobham Aviation Services and Alliance Airlines.¹²²

The potential impact that charter pricing has on fares on RPT routes is considered further in Chapter 5.

122 Alliance Airlines, *Our History*, 2017. Available at: www.allianceairlines.com.au/about-us/our-history. Accessed on 3 November 2017.

Chapter 4

The Many Impacts Of High Airfares On Local Communities

...My uncle [was]... rushed to Perth in a coma. He was critical and was given days to live. ... I tried to arrange the first flight out of Kununurra ... This flight cost just under \$1,000 ONE WAY. ...My return flights back to Kununurra once again cost just under \$1,000 ONE WAY. Personally, I find this ridiculous. My trip was not for a holiday or not for fun but ended up costing me just under \$2,000 to say my goodbyes.¹²³

The Committee received a wide range of evidence demonstrating the impact high airfares have upon local regional communities, which are often a long way from families, friends and important services in Perth. Evidence presented in written submissions matched what the Committee heard in hearings throughout the State and in four large regional public forums. The evidence clearly demonstrates widespread unhappiness in many communities, affecting the social life of the community, the operation of government services and local businesses, and the development and sustainability of a vibrant tourism industry.

The Committee received a substantial number of submissions from the Kimberley and Pilbara regions. Of the 122 submissions it received, 40 (or 33%) were from the community in Kununurra.

4.1 Broad Social Impacts

Isolation From Family And Friends

Isolation and high airfare prices work in synergy to create pressure and challenging living conditions for regional communities, and is a major factor detracting from the 'liveability' of regional centres. The Shire of Derby/West Kimberley highlighted the importance of regular flights to Derby, "[o]ur population has declined since the regular public transport service from Derby ceased and the cost of airfares has risen considerably."¹²⁴

The significant disadvantages faced by isolated communities were outlined to the Committee in many hearings. Lower socio-economic families living regionally are particularly disadvantaged by the combination of high cost fares, isolation and distance

123 Submission No. 20 from Ms Emma-lee Jane, 26 July 2017, p1.

124 Submission No. 82 from the Shire of Derby/West Kimberley, 28 July 2017, p3.

Chapter 4

from important health services in Perth, for example.¹²⁵ Residents who choose to educate their children at Perth boarding schools must factor in the high airfare prices when visiting or returning their children home. University and vocational students also experience prohibitive costs to visit their families, and travellers frequently experience limitations on the amount of luggage that can be carried.¹²⁶

In locations such as Kununurra, the Committee heard that isolation and high airfares influence people's long-term decisions to live in remote centres. Many elect to live in the regions on a short or medium term basis (just a few years), rather than relocate for a longer term or permanent move.¹²⁷ One reason offered for this was the combined influence of isolation and the presence of high airfares, limiting opportunities for engagement with friends and family members in other locations.¹²⁸

The Committee heard evidence that airfares increase during popular travelling periods, including school holidays and important public holidays such as Christmas and Easter, placing further pressure upon families living in isolated communities.¹²⁹ Adding to the isolation, the Committee also heard that extended family members of those living regionally are less likely to travel to remote locations to visit due to high airfare prices. These family members:

...often choose to holiday elsewhere rather than visiting family in Karratha. One young family who own two small businesses in town stated it was cheaper for their extended family to fly return to Europe from the east coast than to visit them in Karratha. This creates a feeling of isolation and in some cases ultimately results in small business owners leaving town to be closer to family.¹³⁰

Ms Cally Dupe submitted that the sentiment "[t]he 'Kimberley would be a much better place to live if it was a bit easier to get out' was repeated almost more than 'it's hot', which, if you've been to the region, is a lot".¹³¹ In her submission, Ms Joanne Pavlinovich reflected upon the social impacts:

It is incredibly expensive to leave or visit Kununurra...As a resident I was far less inclined to travel anywhere which wasn't within driving distance...I found myself isolated from Perth friends and family, unable

125 Submission No. 65 from the Regional Development Australia Mid West Gascoyne, 28 July, p2.

126 Ms Jill Williams, President, East Kimberley Chamber of Commerce and Industry, *Transcript of Evidence*, 21 August 2017, p2.

127 Submission No. 91 from Ms Joanne Sadler, 26 July 2017, p1.

128 Submission No. 65 from the Regional Development Australia Mid West Gascoyne, 28 July 2017, p2.

129 Submission No. 59 from the Western Australian Regional Capitals Alliance, 28 July 2017, p4.

130 Submission No. 102 from the Karratha & Districts Chamber of Commerce & Industry, 23 August 2017, p6.

131 Submission No. 24 from Ms Cally Dupe, 27 July 2017, p3.

to attend special events including birthdays and weddings...The Kimberley is losing so many high-quality professional, community members and volunteers because it simply costs so much to live in the region.¹³²

Similarly, Ms Paula Fletcher detailed the situation faced by Kalgoorlie residents:

Exorbitant airfares to and from Kalgoorlie make it cost prohibitive for people to travel regularly to visit family in other states and even in Perth... Airfares are out of reach of people earning a regular income, unless they are booked at least 3 months in advance... Airfares to and from Kalgoorlie are extremely overpriced and detrimental to tourism, workforce attraction and retention, and quality of life for Kalgoorlie residents.¹³³

The Kalgoorlie Chamber of Commerce and Industry stated in their submission that the cost of regional airfares:

...contributes to extremely poor perceptions of regional lifestyle. Australia is a very mobile community. Perceptions- reality that they cannot have similar lifestyle to other mainstream Australians is a major obstacle confronting the wider Goldfields region.¹³⁴

The Town of Port Hedland's submission included the results of a community survey, which it had undertaken in advance of their public hearing with the Committee. The survey was undertaken over a period of 24 hours and the Town had a limited opportunity to publicise it in any community campaign. The survey's aim was to provide an analysis of the importance and perception of airfare costs for Port Hedland's community. The survey received 246 responses, with:

- 93.5% of responses indicating they could not afford to fly to desired destinations;
- 99.2% of responses considering the cost of airfares to impact upon their ability to visit family, friends and attend special events; and
- 98.8% of responses considered that lower cost airfares should be available to local members of the community.¹³⁵

The Town's submission concluded from the survey that residents believe that:

132 Submission No. 54 from Ms Joanne Pavlinovich, 28 July 2017, pp2-3.

133 Submission No. 108 from Ms Paula Fletcher, 30 August 2017, p1.

134 Submission No. 111 from the Kalgoorlie-Boulder Chamber of Commerce and Industry, 30 August 2017, p2.

135 Submission No. 117 from the Town of Port Hedland, 15 September 2017, p2.

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...airfares to and from our community are not affordable and do not provide economic and social development opportunities in our community. As such, the current aviation framework does not offer the types of service that the State has espoused in its aviation strategy.¹³⁶

Finding 9

The more remote the regional community is from Perth, and the more limited alternative transportation arrangements are, the more significant the impact of high airfares on regional communities.

A number of submissions raised the undue burden high airfares place on communities through health impacts. It is both prohibitively expensive for regional community members to visit sick or ailing family members and friends (and vice versa), but there is also a significant impact on the State Government's Budget, through its purchase of flights to support individual's travel to access vital health services.

The WA Country Health Service (WACHS) manages the Patient Assisted Travel Scheme (PATS). The WACHS budget for PATS in 2017-18 is \$32.9 million to assist an estimated 36,505 patients¹³⁷, but not all of this budget is for airfares.¹³⁸ Funded by Royalties for Regions, PATS provides a subsidy towards the cost of travel and accommodation for eligible patients travelling long distances to seek certain specialist medical services.¹³⁹

Patients must be a resident of a WACHS region and travel more than 100 km one-way for their treatment to qualify for PATS. People living in the Pilbara and the Kimberley (and some other remote areas) may be eligible for air travel to their appointments if:

- travel to the nearest specialist involves surface travel of more than 16 hours (one way); and
- they have to travel for cancer treatment by road for more than 350 kms from their place of residence.¹⁴⁰

136 Ibid.

137 Government of Western Australia, *Summary Of State Government Social Concessions*, nd, p283. Available at: <http://static.ourstatebudget.wa.gov.au/17-18/2017-18-wa-state-budget-bp3.pdf>. Accessed on 13 November 2017.

138 Dr Neale Fong, Board Chair, WA Country Health Service, Letter, 23 November 2017.

139 WA Country Health Service, *Patient Assisted Travel Scheme (PATS)*, 2011. Available at: www.wacountry.health.wa.gov.au/index.php?id=pats. Accessed on 14 November 2017.

140 WA Country Health Service, *Am I eligible for PATS?*, 2011. Available at: www.wacountry.health.wa.gov.au/index.php?id=628. Accessed on 14 November 2017.

Finding 10

High regional airfares are significantly and adversely affecting the lives of regional Western Australians, particularly those who are forced to travel due to sickness, emergency or other family incident.

4.2 A Wide Range Of Business Impacts

High airfares increase the overall operating costs for regional businesses, especially small businesses.¹⁴¹ For example, the costs to recruit new employees, attend training and development opportunities outside of regional centres and simply meet with clients or customers based elsewhere, are all made more challenging by high regional airfares.¹⁴²

The Karratha and Districts Chamber of Commerce and Industry indicated the majority of small to medium sized business owners in the Pilbara are required to travel to Perth at least annually, to conduct meetings, seek new business opportunities and for professional development. High airfares often make such travel impossible, which in turn directly impacts upon the businesses' capacity for growth and development.¹⁴³

Some larger regional businesses (and government agencies) will have significantly greater 'demand inelasticity' and 'price insensitivity' with respect to airfares. They are far more likely to travel, despite high prices. For others, especially smaller businesses such as tourist operators, airfare prices will determine if they travel at all, or not. The Committee heard in Broome that "one of the constant resounding issues in doing business, and the cost of the airfares, is training" and that many small businesses would not participate in training offered in Perth because of high airfares.¹⁴⁴ The impact on training and business development opportunities particularly affected franchisees, who:

*...up here often have to forgo [training in Perth] unless they want to pay those significant costs. When you look at the franchise business model, one of the major benefits of that business model is having access to the training and the development.*¹⁴⁵

Employment In The Regions

The Committee received evidence that high airfare prices affect the recruitment process for staff, and the subsequent staff retention rates. The Shire of Wiluna

141 Submission No. 65 from the Regional Development Australia Mid West Gascoyne, 65, p2.

142 Submission No. 102 from the Karratha and Districts Chamber of Commerce and Industry, 23 August 2017, p2.

143 Ibid.

144 Ms Jael Napper, CEO, Broome Chamber of Commerce and Industry, *Transcript of Evidence*, 22 August 2017, p1.

145 Ibid.

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reported that local organisations rarely conduct face-to-face interviews for more than one potential appointee, relying upon telephone or video conferencing for a wider field, “[I]f we wished to bring the best three applicants to Wiluna for face-to-face interviews then they would be up for additional costs of \$2,700 for airfares alone.”¹⁴⁶ Significant costs to businesses can result when a sub-optimal appointee is recruited by a non-face to face process.¹⁴⁷

The Australian Hotels Association suggested that tourist businesses, particularly in the North West, found that high airfares were one of the factors that made it harder to employ staff from Perth for the five-month high season, when local residents were not enough to sustain all of their employment needs:

...young people—have to be able to afford to get up there. When we are talking about return airfares that cost over \$1,000, to what extent does that make it easily viable for someone who is a medium to long-term unemployed person, living in a Perth outer suburb, looking for work during the three, four or five-month peak period of the year in the North West, who has had some hospitality training and who has been certified and who has been working with a job-active provider, to get employment...¹⁴⁸

The ability to attend professional development opportunities, including training and conferences for employees is often limited by the cost of airfares. The Committee learnt that some regional centres do not have convenient access to videoconferencing facilities, as an alternative to travelling.¹⁴⁹

Additionally, following a staff appointment, utilising air transport via a RPT service for the relocation of personal items is often not practicable for the individuals and businesses involved. Luggage allowances upon regional carriers are capped at a maximum of 15kg, including carry-on, and airlines can charge a flat fee of up to \$70 for an extra piece of checked in luggage.¹⁵⁰

Finding 11

The high cost of regional airfares can have a debilitating effect on price-sensitive markets, particularly small businesses and tourism operators.

146 Submission No. 93 from the Shire of Wiluna, 28 July 2017, p5.

147 Ibid, p5.

148 Mr Bradley Woods, CEO, Australian Hotels Association (WA), *Transcript of Evidence*, 18 September 2017, p6.

149 Submission No. 59 from the Western Australian Regional Capitals Alliance, 28 July 2017, p4.

150 Submission No. 93 from the Shire of Wiluna, 28 July 2017, p5.

4.3 Essential Services Impacted

The Committee also received evidence that vital community services are impacted by high airfares, including government services such as education, health and policing.

Government education and health services are adversely affected, as providers struggle to attract and retain qualified staff in regional locations. This can lead to a decrease in the quality of education and health services provided in a regional community.¹⁵¹ Many vital positions in health and other sectors are often vacant for extended periods due to the lack of qualified and experienced applicants applying for positions.¹⁵² Ms Amanda Harding stated in her submission, “[I] believe the high airfares are socially and professionally isolating and would be one of the factors that contribute to the high staff turnover experienced by the health sector”.¹⁵³

In addition to the costs incurred in catching a flight, flight schedules can also have a significant impact on the overall cost of intrastate travel. Policing in regional communities is also adversely affected by poor service levels and inadequate scheduling. Local police officers travelling to Perth to appear in court typically spend three days away from their town because of scheduled departure times developed to assist FIFO roster changeovers. This places added pressure on WAPOL’s regional resources, including individual police staff and vehicles.¹⁵⁴

4.4 Impact On The Not For Profit Sector

The Goldfields Women’s Refuge, a not for profit service which provides support to women who require urgent assistance from domestic violence, or who are at risk of imminent homelessness, provided a submission.¹⁵⁵ In it they highlight two issues which have resulted from the high airfares between Kalgoorlie and Perth:

- Flights from Kalgoorlie cannot be pre-booked in advance due to the nature of a client or family who require urgent relocation. Flights must therefore be booked at very short notice, in many cases upon the first available departing flight. This results in very high costs for the purchase of such flights, and can limit the level of assistance which the Refuge can provide, in addition to potentially affecting client safety.
- In order to deliver the very best service to their community, the Refuge encourages its staff to attend professional development, through specialised training in Perth. The presence of high airfare prices results in a limited number of staff being able to attend training opportunities. Further, the

151 Submission No. 82 from the Shire of Derby/West Kimberley, 28 July 2017, p3.

152 Submission No. 91 from Ms Joanne Sadler, 26 July 2017, p1.

153 Submission No. 72 from Ms Amanda Harding, 28 July 2017, p1.

154 Submission No. 82 from the Shire of Derby/West Kimberley, 28 July 2017, p3.

155 Submission No. 116 from the Goldfields Women’s Refuge, 1 September 2017, p2.

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scheduling of flights departing Kalgoorlie results in staff having to spend two nights' accommodation in Perth, further impacting their budget.¹⁵⁶

4.5 Other Matters Raised With The Committee- Service Levels and Schedules

In addition to the cost of airfares, there were also a range of other matters that were raised with the Committee with respect to regional air services.

Aircraft Age And Quality

Some regional residents commented on the poor quality and the aged aircraft now serving regional routes since the R&E structural adjustment in 2012-13. This was a common factor on 'community' and 'hybrid' routes, and was also increasingly evidenced in 'R&E' destinations.

The more modern Boeing 737s and 717 aircraft utilised on the R&E routes are now increasingly being substituted for older and smaller Fokker F100s or other smaller aircraft primarily used on other route types, as passenger numbers decrease on most regional routes.¹⁵⁷

Qantas confirmed that the average age of its Fokker 100 airframe age is 24 years while the oldest was 27 years, and said "[t]he F100 aircraft is the optimal size with the best suited range and operating economics for intra-WA routes."¹⁵⁸

The difference in the ages of the fleets operated by Qantas, Rex and Virgin Australia on the western and eastern coasts of Australia is confirmed in Table 4.1 below. The aircraft used on regional WA routes are substantially older, and have been operated by far more companies over their life, than those used on eastern States' routes.

Typically, these aircraft do not offer business class seats, in-flight entertainment and have a limited food and beverage offerings. Qantas doesn't operate aircraft itself on WA's regional routes but code shares or uses airlines it owns to operate them, such as Airnorth, Alliance and QantasLink (Network Aviation).

156 Ibid.

157 Mr Michael Leake, Manager, Habitat Resort Broome, *Transcript of Evidence*, 22 August 2017, p6.

158 Submission No. 95A from Qantas Airways Ltd, , 2 November 2017, p5.

Table 4.1- Comparison of airline fleet ages between WA and other routes

Airline	Average fleet age of WA fleet (yrs)	Oldest airframe in WA fleet (yrs)	No. of companies oldest airframe has been owned by	Average fleet age in the eastern states/over seas	Oldest airframe in the eastern states/over seas	No. of companies oldest airframe has been owned by
Qantas ¹⁵⁹				10.4	18.1	1
Jetstar (Qantas) ¹⁶⁰				7.3	13.5	1
Network Aviation (QantasLink) ¹⁶¹	24.2	27.3	6			
Cobham Aviation (Qantas/FIFO) ¹⁶²	17.7	27.5	4			
Airnorth (Qantas codeshare) ¹⁶³	19.8	29.5	8			
Sunstate Airlines (QantasLink) ¹⁶⁴				8.0	11.8	1
Virgin Australia ¹⁶⁵				7.1	9.2	1
Virgin Aust. Regional ¹⁶⁶	16.2	27.5	6			
Alliance (FIFO) ¹⁶⁷	24.7	28.4	7			
Rex ¹⁶⁸	23.6	28.4	4			

159 AIRFLEETS.NET, *Qantas fleet details*, 2017. Available at: www.airfleets.net/ageflotte/Qantas.htm. Accessed on 19 October 2017.

160 AIRFLEETS.NET, *Jetstar fleet details*, 2017. Available at: www.airfleets.net/ageflotte/Jetstar.htm. Accessed on 19 October 2017.

161 AIRFLEETS.NET, *Network Aviation Australia fleet details*, 2017. Available at: www.airfleets.net/ageflotte/Network%20Aviation%20Australia.htm. Accessed on 19 October 2017.

162 AIRFLEETS.NET, *Cobham Aviation fleet details*, 2017. Available at: www.airfleets.net/ageflotte/Cobham%20Aviation.htm. Accessed on 19 October 2017.

163 AIRFLEETS.NET, *Airnorth Regional fleet details*, 2017. Available at: www.airfleets.net/ageflotte/Airnorth%20Regional.htm. Accessed on 19 October 2017.

164 AIRFLEETS.NET, *Sunstate Airlines fleet details*, 2017. Available at: www.airfleets.net/ageflotte/Sunstate%20Airlines.htm. Accessed on 19 October 2017

165 AIRFLEETS.NET, *Virgin Australia fleet details*, 2017. Available at: www.airfleets.net/ageflotte/Virgin%20Australia.htm. Accessed on 19 October 2017.

166 AIRFLEETS.NET, *Virgin Australia Regional Airlines fleet details*, 2017. Available at: www.airfleets.net/ageflotte/Virgin%20Australia%20Regional%20Airlines.htm. Accessed on 19 October 2017.

167 AIRFLEETS.NET, *Alliance Airlines fleet details*, 2017. Available at: www.airfleets.net/ageflotte/Alliance%20Airlines.htm. Accessed on 19 October 2017.

168 AIRFLEETS.NET, *REX Regional Express fleet details*, 2017. Available at: www.airfleets.net/ageflotte/REX%20Regional%20Express.htm. Accessed on 19 October 2017.

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Skippers ¹⁶⁹	25.3	30.3	4	-	-	-
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Finding 12

The aircraft used by all airlines servicing regional routes in Western Australia are significantly older than those used to serve routes in other jurisdictions.

Questioned about this matter, DoT replied that the age of aircraft was a matter for the Civil Aviation Safety Authority, and “DoT’s focus is on ensuring appropriate air services are provided for regional communities and business. Accordingly, the age of aircraft is not in itself a deciding factor.”¹⁷⁰

DoT specifically provided information about Rex’s SAAB 340Bs, the oldest of which is 28.4 years old:

*The lifetime flying hours of a SAAB 340B is 80,000 hours. Rex on average will utilise the aircraft for only 1,200 flying hours per year. On this basis, the SAAB 340B will be able to fly for many years into the future.*¹⁷¹

This ‘right-sizing’ of aircraft, along with a reduction in the number of flights to regional centres, has added to the grievances of people living in regional WA with their aviation services. The Australian Hotels Association told the Committee that “[t]here is a high level of frustration in the North West, particularly around the capacity and size of aircraft and the downgrading of services” and said:

*Those are really important factors that we would encourage the airlines to be cognisant of and really be aware of. A three-hour flight is not something that people want to not have any catering services on. You get that on a train sometimes over on the east coast better than you would on an airline.*¹⁷²

Impact On Freight Services

The transportation of freight into the regions for both residents and businesses, such as agriculture, was also frequently raised in evidence presented to the Committee.

There is an obvious correlation between the size of the planes operating on regional routes, the amount of freight carried upon an aircraft and the number of passengers. As outlined above, smaller planes have always operated on a number of regional

169 AIRFLEETS.NET, *Skippers Aviation fleet details*, 2017. Available at:

www.airfleets.net/ageflotte/Skippers%20Aviation.htm. Accessed on 19 October 2017.

170 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, Letter, 14 November 2017, p3.

171 Ibid, p4.

172 Mr Bradley Woods, CEO, Australian Hotels Association (WA), *Transcript of Evidence*, 18 September 2017, p10.

routes. After the resources downturn in 2011-12, both major airlines moved from larger jets to smaller planes, with more limited cargo holds.

For example, the Committee was told that the weather and the climate in the Kimberley have a significant impact on the load that a Fokker F100 can carry. This affects the combination of passengers and freight on board and, where planes are full, lead to longer flight times as flights need to land at additional airports to refuel:

*Can I say that quite often the planes will not be able to make it, even back to Perth, in one go. I certainly have had opportunities where I have flown to Perth and had to land in Newman or somewhere to refuel just to get back to Perth.*¹⁷³

The Committee received evidence that freight charges were expensive and often involved long delays, before vital pieces of equipment arrived in situations where freight was not loaded, in preference for passengers and their luggage:

*...in May this year, for five days in a row, some people were waiting for Express Post parcels to be delivered. The freight did not arrive on the plane because it was actually pushed off the plane because the planes were full.*¹⁷⁴

Similarly, where an airline prioritises freight, passengers have also experienced poor service. The Broome Chamber of Commerce and Industry stated, “[I] personally experienced a situation where my sister who was on standby was pushed off the flight because it was too full of freight.”¹⁷⁵

Two impacts on everyday matters which the Committee had not previously considered were raised by the Shire of Derby/West Kimberley, “[o]ne of the biggest issues is the deceased and getting them to Perth”¹⁷⁶ and the Broome CCI, “[w]e very rarely get the daily papers up here anymore. Once upon a time they would arrive every day”.¹⁷⁷

173 Mr Carl Askew, CEO, Shire of Wyndham–East Kimberley, *Transcript of Evidence*, 21 August 2017, p8.

174 Mr Michael Leake, Manager, Habitat Resort Broome, *Transcript of Evidence*, 22 August 2017, p6.

175 Ms Jael Napper, CEO, Broome Chamber of Commerce and Industry, *Transcript of Evidence*, 22 August 2017, p2.

176 Mr Stephen Gash, CEO, Shire of Derby/West Kimberley, *Transcript of Evidence*, 22 August 2017, p7.

177 Mr Peter Taylor, President, Broome Chamber of Commerce and Industry, *Transcript of Evidence*, 22 August 2017, p2.

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Finding 13

In addition to the impact that high fares have on regional communities, many residents are affected by inadequate scheduling, a poor quality older air fleet and unreliable and expensive freight services.

4.6 A Limit To The Growth Of Local Tourism Initiatives

Tourism WA highlighted the tourism sector's importance to the State's economic health. The Committee also received considerable evidence from a number of regional communities outlining their keen pursuit of tourism opportunities to diversify their economic base.

For the 2015-16 financial year, the WA tourism industry employed 109,000 people and contributed over \$10.6 billion into the State's economy. The State Government's *Strategy for Tourism in Western Australia 2020* aims to increase the annual visitor spend to \$12 billion by 2020.¹⁷⁸

Efforts to increase tourism visitations to regional WA are critical as in the 12 months between 2015-16 and 2016-17 the total visitor numbers dropped by 1.5% to 6.1 million people. Total tourist expenditure in regional WA fell by 10% to \$4 million. Holidays to regional areas by interstate visitors fell by 7.4%, while regional holidays by Western Australians fell by 4.2%.¹⁷⁹

Broome has heavily invested in the tourism industry. The Broome CCI stated that, "every business in Broome in some way trades on tourism."¹⁸⁰ The Chair of the Broome Tourism Leadership Group claimed that, "[a]viation has been an enabler of that key to the success of the tourism investment in the town, and today I think it is quite clear to see the hundreds of millions of dollars of invested capital is sitting in Broome."¹⁸¹

In discussing tourism in the West Kimberley, the Shire of Derby/West Kimberley said, "[f]or tourism, the high cost of regional airfares is debilitating",¹⁸² and that:

Air access has a significant impact on our economy, tourism market and community wellbeing...From a tourism perspective, air service facilitates

178 Submission No. 27 from the Department of Jobs, Tourism, Science and Innovation, 27 July 2017, p1.

179 Tourism Research Australia, *Travel by Australians: Results of the National Visitor Survey for Year Ending June 2017*, 20 September 2017. Available at: www.tra.gov.au/ArticleDocuments/251/NVS%20Web%20Tables%20Final_2017q2.xlsx.aspx. Accessed on 8 November 2017.

180 Ms Jael Napper, Chief Executive Officer, Broome Chamber of Commerce and Industry, *Transcript of Evidence*, 22 August 2017, p1.

181 Mr James Brown, Chair, Broome Tourism Leadership Group, *Transcript of Evidence*, 22 August 2017, p1.

182 Submission No. 82 from the Shire of Derby/West Kimberley, 28 July 2017, p4.

*the delivery of visitors that without air access they simply would not come.*¹⁸³

The Kalgoorlie-Boulder Chamber of Commerce and Industry agreed that the high cost of airfares was an inhibitor to organisers and potential attendees of corporate events, such as conferences and tourism-based initiatives, including sporting competitions, in the Goldfields.¹⁸⁴

Even in the traditional resource centre of Karratha the tourism sector is seen as an important one to help the City diversify its economy after the recent structural adjustment, even though “tourism has been totally squashed here by the resources industry and is just starting to come up again.”¹⁸⁵ The Pilbara Development Commission, Tourism WA, the City of Karratha and the Pilbara Regional Council are developing a strategy for tourism in the Pilbara, but have to deal with the public perception that flights to the region are expensive.¹⁸⁶

Besides affordability, the Shire of Shark Bay submitted that the way in which the regulated monopoly RPT route between Carnarvon and Shark Bay was operated by Skippers was one of the reasons that the needs of the tourism industry are not being met.¹⁸⁷ A local Shark Bay business recounted feedback from their clients that, while the “time element dictates travel by air as the only possible way to see enough of WA to make their trip to the west worthwhile” all of the people they had this conversation with “tell us that the cost of regional airfares are totally prohibitive”.¹⁸⁸

In their submission, the Tourism Council WA (TCWA) included the results of a special survey conducted with regional tourism businesses, that were members of the Council, on their customers’ feedback on regional aviation. There were 215 responses to the survey, the largest response the Council had ever received to a survey of its members.¹⁸⁹

Tourism businesses were asked to rate the barriers to first time or repeat visitation by tourists to their region. Barriers assessed ranged from the cost of accommodation to the lack of activities for tourists to undertake in the local region, and were rated on a scale of 1 to 10. The results (in Figure 4.1 below) clearly indicate that the cost of

183 Ibid, p2.

184 Submission No. 102 from the Kalgoorlie-Boulder Chamber of Commerce and Industry, 30 August 2017, p3.

185 Mr John Lally, CEO, Karratha and Districts Chamber of Commerce and Industry, *Transcript of Evidence*, 23 August 2017, p4.

186 Mr Terry Hill, CEO, Pilbara Development Commission, *Transcript of Evidence*, 23 August 2017, p6.

187 Submission No. 28 from the Shire of Shark Bay, 27 July 2017, p12.

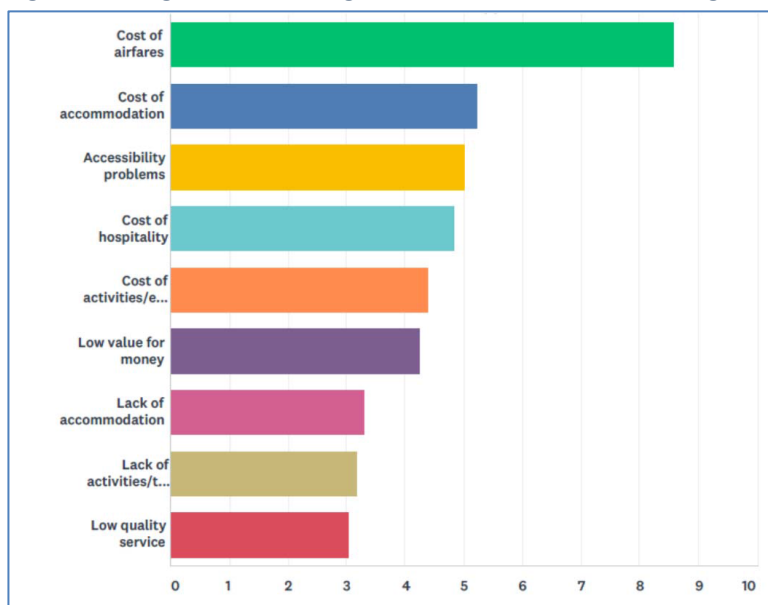
188 Submission No. 15 from Ms Kerry Jones, 27 July 2017, p2.

189 Submission No. 86 from Tourism Council WA, 31 July 2017, p5.

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airfares are of most concern to regional businesses as the largest barrier to their further growth.

Figure 4.1- Significance of regional airfares as barriers to regional tourism¹⁹⁰



The TCWA survey also showed that its members would match a hypothetical 30% reduction from airlines in airfares for a tourism package, “certainly overwhelmingly in our survey the industry said that they would do—is they would match that reduction in airfares and again put it in the package”.¹⁹¹

The Committee was told that in the presence of high regional intrastate airfares, tourists were electing to holiday elsewhere, outside of WA in locations in South East Asia such as Bali, Singapore and Thailand.¹⁹² Return flights to such overseas locations from regional towns can be considerably cheaper than a return flight inside the State:

*Kununurra has great potential in agriculture and tourism to name a few. Not only is it difficult for residents to get out, but it is equally as difficult to visitors/tourists to come in by air – many just don't bother as the price is too high. This does not support our economy in the region.*¹⁹³

Data from TCWA shows that little of the current regional air travel is undertaken by tourists, as shown in Table 4.2 (below).

¹⁹⁰ Ibid, p6.

¹⁹¹ Mr Evan Hall, CEO, Tourism Council WA, *Transcript of Evidence*, 18 September 2017, p5.

¹⁹² Submission No. 59 from the Western Australian Regional Capitals Alliance, 28 July 2017, p4.

¹⁹³ Submission No. 61 from Ms Janelle Atwell, 28 July 2017, p1.

Table 4.2- Current regional travel by mode and purpose¹⁹⁴

Purpose (excl FIFO)	Air Travel	Other Travel
Leisure	8%	92%
Business	34%	66%
Other	12%	88%

While much of the regional air travel is currently undertaken by FIFO workers, and the majority of tourists drive to see regional WA, a large market nonetheless remains for regional towns to participate in, if airfares were lower.

The Western Australian Regional Capitals Alliance submitted to the Committee:

*Fewer people flying into Western Australia means less economic activity, less social interaction, less opportunity for those in regional WA and correspondingly less opportunity for those who might have engaged with regional WA. It's a lose/lose proposition for all concerned, including towns, the region and the State of WA.*¹⁹⁵

Finding 14

Tourists are holidaying outside of Western Australia, often in South East Asian destinations including Bali, Singapore and Thailand. The high cost of regional airfares to and within Western Australia is a significant contributing factor.

194 Submission No. 86 from Tourism Council WA, 31 July 2017, p8.

195 Submission No. 59 from the Western Australian Regional Capitals Alliance, 28 July 2017, p4.

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Key Factors Contributing To The Cost Of Airfares

“...the people of the town are actually subsidising the cheap airfares that the Rio’s of the world and the other resource companies are getting. They are virtually calling the shots and it is skewing the market.”¹⁹⁶

The evidence presented to the Committee suggests that the construction of airfare prices is remarkably complex. A number of variables can influence both the fares offered to the market and the overall profitability of individual routes, networks and airlines. Moreover, aviation operators are notoriously secretive – very little information is publicly available regarding cost structures and yield management methodologies.

The Committee did receive information on several elements contributing to the cost of air services and was therefore able to consider the impact these factors can have on the price of regional airfares. However, very little information was available on other cost elements and the approaches airlines adopt towards pricing – particularly on unregulated intrastate routes.

5.1 Geography And Demography Of WA’s Regional Towns

Most Regional Towns Are Very Remote With Small Populations

A number of witnesses told the Committee that long distances and small passenger loads are key factors affecting airfares. Most of the State’s air routes originate in Perth and are to locations classified as ‘remote’ or ‘very remote’ by the Australian Bureau of Statistics, as shown in Figure 5.1 below.

WA’s historical population settlement pattern has produced “the smallest and most dispersed regional population of anywhere probably on the planet.”¹⁹⁷ Regional communities have small resident populations with the State’s population concentrated in Perth. This leads to a basic structure where:

...regional air services broadly would be defined by fairly thin markets, low volumes, very spoked out of Perth primarily—it is not a very

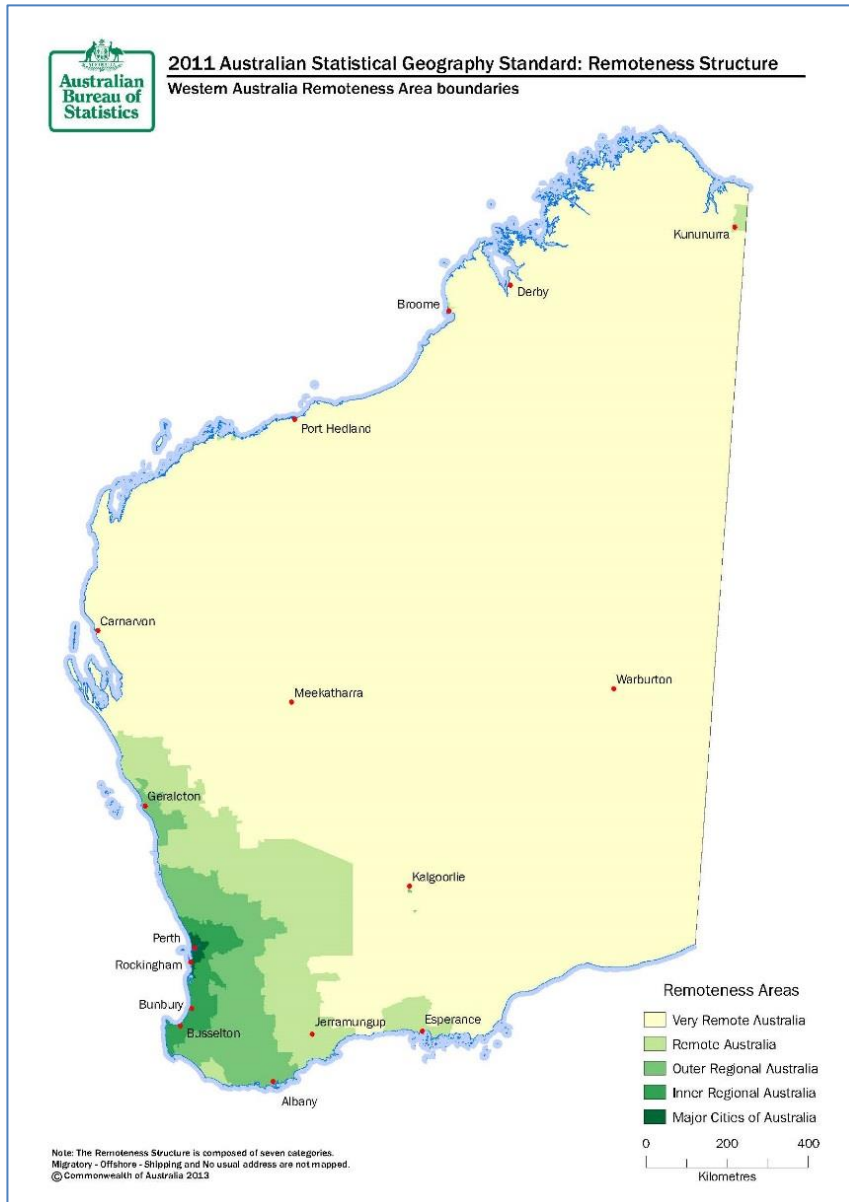
196 Mr John Lally, CEO, Karratha and Districts Chamber of Commerce and Industry, *Transcript of Evidence*, 23 August 2017, p2.

197 Mr Bob Davis, Director, Corporate and Commercial Services, City of Greater Geraldton, *Transcript of Evidence*, 18 September 2017, p12.

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*interconnected system of routes—and mostly serviced by a monopoly or a duopoly.*¹⁹⁸

Figure 5.1- WA's remoteness areas¹⁹⁹



198 Mr Ralph Addis , Acting Director General, Department of Primary Industries and Regional Department, *Transcript of Evidence*, 16 August 2017, p1.

199 Australian Bureau of Statistics, *Western Australia Remoteness Area Boundaries*, Volume 5 – Remoteness Structure, July 2011, Australia, p7. Available at: [www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/EB3374C05104D74ACA257D1E00128192/\\$File/1270055005_2011_remoteness_structure_maps.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/EB3374C05104D74ACA257D1E00128192/$File/1270055005_2011_remoteness_structure_maps.pdf). Accessed on 16 October 2017.

Qantas Airways submitted to the Committee that:

*The West Australian regional network is one of the most expensive markets to operate on the Group's network. Operating costs are disproportionately high due to the relatively low volume of passengers on regional Western Australia routes.*²⁰⁰

Virgin Australia contrasted the difficulty of serving WA's geography with that of Queensland, which is 70% of WA's size:

*...where 45% of the State's population lives outside the capital, compared with 25% in WA. In Queensland there are 10 regional centres of more than 50,000 people, which are served by RPT operations; there are none in WA.*²⁰¹

Of those regional towns and cities in WA with RPT routes, Geraldton is the largest with about 32,000 residents, followed by Kalgoorlie and Albany with approximately 30,000 each.²⁰²

The Shire of Broome told the Committee that "Broome is one of the most remote regional centres on the planet in relation to our distance from any major capital city."²⁰³ The Kimberley Development Commission highlighted that the remoteness from Perth also added to the high cost of running local businesses, including airports, and that core businesses such as tourism are subject to high levels of seasonal demand.²⁰⁴ The 'wet' season between November and April made it very difficult to attract tourists and this meant that flight loads were even lower than during the 'dry' season:

*...there is a major concern that often in that four or five-month wet season, the planes are coming in two-thirds or 50% empty and there is no mechanism for even locals to get any preferential access to those seats.*²⁰⁵

200 Submission No. 95 from Qantas Airways Ltd, 31 July 2017, p3.

201 Ms Jane McKeon, Group Executive, Government Relations, Virgin Australia, *Transcript of Evidence*, 11 September 2017, p2.

202 *Australia: Western Australia*, 2017. Available at: www.citypopulation.de/php/australia-westernaustralia.php. Accessed on 16 October 2017.

203 Councillor Harold Tracey, Deputy Shire President, Shire of Broome, *Transcript of Evidence*, 22 August 2017, p1.

204 Mr Jeff Gooding, CEO, Kimberley Development Commission, *Transcript of Evidence*, 21 August 2017, p2.

205 Mr Paul Bawden, Manager, East Kimberley Regional Airport, Shire of Wyndham–East Kimberley, *Transcript of Evidence*, 21 August 2017, p14.

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Finding 15

Airlines are required to travel significantly further, and to regional centres with smaller populations, than they do on RPT routes in all other Australian jurisdictions.

5.2 The Impact Of The Resources And Energy Industry

Chapter 2 discussed broad route characteristics in regional WA, suggesting that the R&E sector has the capacity to significantly skew outcomes in some communities. Despite the small resident populations in many remote and regional towns, these destinations experience significant demand for air services, driven by the R&E sector. For example, Skippers Aviation said “two-thirds of our business, is probably mining FIFO work.”²⁰⁶ The scale, development cycle and structure of the industry can produce seismic changes in other sectors and centres of economic activity, and may significantly reshape regional communities.

Resource and energy projects are often located in remote and regional areas, with small (if any) nearby population centres. The projects require vast workforces – particularly during the labour-intensive ‘construction’ phase. The significant difference between the construction and production phases at Chevron’s Wheatstone Project near Onslow meant a declining use of the airport, “we are moving from at the moment 20 flights a week—we were up to around 30 about 18 months ago—down to about five a week.”²⁰⁷

The sector relies in large part on a ‘Fly in, Fly Out’ (FIFO) labour force model, where employees and contractors are transported from major population centres (predominantly Perth) to remote project sites, rather than sourcing labour from the local area. The Association of Mining and Exploration Companies contends that “FIFO and [Drive in, Drive out] are legitimate workforce planning strategies and an essential component of the cyclical nature of the mining sector”²⁰⁸ and commented on the importance the R&E sector places on low-cost airfares:

*...Access to cost effective and reliable RPT and charter airline services is a critical component of the Western Australian mineral exploration and mining sector. This is even more important for companies with projects in regional Western Australia, which may be hundreds of kilometres from major regional towns.*²⁰⁹

206 Mr Stan Quinlivan, CEO, Skippers Aviation Pty Ltd, *Transcript of Evidence*, 18 September 2017, p1.

207 Mr Troy Davis, Airport Manager, Shire of Ashburton, *Transcript of Evidence*, 11 September 2017, p3.

208 Submission No. 89 from the Association of Mining and Exploration Companies, 31 July 2017, p4.

209 Ibid.

Similarly, the Chamber of Minerals and Energy stated “[a]ccess to cost-effective regional RPT air routes are essential for resources companies to remain competitive and enable transport of workers to their workplaces.”²¹⁰

FIFO R&E projects operate around shifts or ‘swings’ and require periodic movements of large passenger numbers. Qantas explained that one of the defining features on R&E routes is:

*...the unidirectionality of demand, which results in large demand peaks and troughs throughout the schedule. This is an unavoidable feature of markets which lack scale due to their small populations and have tidal demand patterns due to their large, roster-based fly-in-fly-out (FIFO) traffic flows.*²¹¹

Qantas provided the Committee with data that “for Mondays in August 2017, analysis of the Perth-Newman return route shows northbound services operated seat factors on average between 70-80%, while southbound services operated seat factors on average between 20-30%.”²¹² This led to the lowest airfare of \$901 booked three days or less prior to flight QF1086 (the northbound flight with a 81% load factor) on Monday 7 August, compared to the lowest airfare of \$329 on flight QF1087 (the southbound flight with a 23% load factor) on the same day.²¹³

The ‘uni-directional’ nature of R&E travel was questioned by some witnesses, observing that passengers travelling to a destination must eventually return home. The Australian Airports Association stated:

*I am not sure I fully agree that it is one-directional. Certainly, that is not the experience in the oil and gas sector, so all of the offshore stuff in Karratha, those that fly in are replaced by those that are flying back home. A lot of mining operations are the same.*²¹⁴

A retired corporate travel manager agreed that in the oil and gas sector:

It is not a black hole. They have their shifts worked out and they have 30 or 40 people going up on the morning flight. They will get up there and get the chopper out to the rig. The other guys come back on the chopper. They will either get the flight home or cool their heels at the airport around Karratha and then get the evening flight home—the evening

210 Submission No. 56 from The Chamber of Minerals and Energy of Western Australia, 28 July 2017, p2.

211 Submission No. 95A from Qantas Airways Ltd, 2 November 2017, p2.

212 Ibid.

213 Ibid.

214 Mr Guy Thompson, Chair, Australian Airports Association, *Transcript of Evidence*, 11 September 2017, p7.

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*flight vice versa. More so on the morning flights when you have the bulk of the people going up and they do changeover. There is no black hole there at all... They may have a lighter load coming home, but they certainly would not send a 120-seat aircraft up to Karratha and then bring it back empty. In my experience that has never happened.*²¹⁵

The R&E industries' preference for the FIFO labour force model has had obvious impacts on the aviation industry, and by extension, regional airfares. The FIFO labour force model generates particular demand patterns for aviation services to regional destinations. Recent structural adjustments in the sector have also caused major changes in those demand patterns, and both have had an impact on regional airfares.

The FIFO Model Affects Regional Airfare Prices On RPT Routes

As was highlighted in Chapter 2, some routes are unusually exposed to the FIFO dynamic. Evidence before the Committee suggests that local resident's travel constitutes a small portion of fares purchased on these routes. As was highlighted in Chapter Three, the travel undertaken by local residents tends to be either for leisure, business or in response to critical incidents, distinguishing their travel purchasing arrangements from R&E companies.

The Committee received evidence that R&E companies adopt several purchasing strategies to transport their work forces. Typically companies either:

- 'block-book' or 'charter' seats on RPT services;
- buy fares on the open market; or
- charter individual aircraft.

AMEC stated in its submission:

*Subject to the location, the number and regularity of workforce movements several companies have negotiated their own contracts with independent charter airline services and not with commercial airlines. Other companies use the Regulated [sic] Public Transport (RPT) services on an ad hoc basis or operate their own airport.*²¹⁶

215 Mr Claude Scivolo, Retired Corporate Travel Manager, *Transcript of Evidence*, 1 November 2017, p2.

216 Submission No. 89 from the Association of Mining and Exploration Companies, 31 July 2017, p1.

On One Hand, Block Booking/Seat Chartering Can Drive Prices Up For Local Communities...

Many community members, particularly in the north of the State, feel that resource companies obtain cheap airfares on RPT flights by making block bookings for their FIFO workers, leaving the more expensive seats available for purchase on the open market by local residents:

*...the people of the town are actually subsidising the cheap airfares that the Rio's of the world and the other resource companies are getting. They are virtually calling the shots and it is skewing the market.*²¹⁷

Evidence was provided that large resource companies could obtain \$216 one-way fares between Perth and Karratha, while the cheapest for the general public was \$336.²¹⁸ Similarly, the Mayor of the City of Kalgoorlie-Boulder said, compared to the average Perth-Kalgoorlie fare of \$235, “the general advice around the Goldfields is that FIFOs pay about \$195 to \$205, ... Have a guess how they get to those prices? Because they seek tenders from the two airlines.”²¹⁹

Mr Scivolo, a retired corporate travel agent, said that resource companies have “very capable procurement negotiators” who negotiate rebates on their block bookings of “anything from 30 up to 55% off [the] full economy” price for the route.²²⁰ The agreements with airlines are based on contracts for three to five years where the companies might “spend \$40 million or \$50 million a year on point-to-point air travel.”²²¹

Another witness suggested to the Committee that the mining companies use their bargaining position to secure cheap fares, at the expense of local communities:

They are going to negotiate the best deals on their routes. Where the airlines will make up the difference, the higher yielding stuff is the community. In fact, you could look at that and say mum, dad and the kids are in fact subsidising the resources companies so that they can get

217 Mr John Lally, CEO, Karratha and Districts Chamber of Commerce and Industry, *Transcript of Evidence*, 23 August 2017, p2.

218 Mrs Cassie Perry, Board Member, Karratha and Districts Chamber of Commerce and Industry, *Transcript of Evidence*, 23 August 2017, p3.

219 Councillor John Bowler, Mayor, City of Kalgoorlie–Boulder, *Transcript of Evidence*, 31 August 2017, p7.

220 Mr Claude Scivolo, Retired Corporate Travel Manager, *Transcript of Evidence*, 1 November 2017, p1 & p3.

221 *Ibid*, p3 & p8.

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*cheap airfares and good deals and the leftovers go to mum, dad and the kids.*²²²

However, while Virgin Australia agreed they had contracts with large resource companies to provide block bookings, they stated that this didn't affect the price for other passengers:

*Generally speaking, because [the companies] want that guaranteed, locked-in capacity, it is not at the discounted sale fares or taking any of that availability away from all the other initiatives with advance purchase fares and our lead-in prices.*²²³

Virgin did agree they provided discounts to their corporate customers, but these:

*...are not necessarily as massive as what everyone probably thinks that they are. In fact, I can sit hand on heart and say that the average fare that we generate from our corporate market overall is still a higher number than what comes through the direct, or what the communities would be accessing today.*²²⁴

Virgin Australia provided the Committee with 'commercial-in-confidence' material on its closed-charter and block booking contracts. Their busiest route saw a block booking of about 60% of seats while the lowest accounted for only about 6% of seats on that flight.²²⁵

After its hearing with the Committee, Qantas provided material on its block booking contracts:

Qantas, like other carriers, negotiates commercial agreements with customers who bring large volumes of traffic to our network. The three products we offer these customers are charters, block space and fare discounts. ...

The four intra-WA routes with the largest number of passengers are the Karratha, Newman, Port Hedland and Paraburdoo routes. Generally, more than half of the seats on mining routes are taken by passengers

222 Ms Johanna Ramsay, Independent Aviation Consultant, *Transcript of Evidence*, 13 September 2017 p4.

223 Mr Richard George, Head of Corporate Sales, Virgin Australia, *Transcript of Evidence*, 11 September 2017, p10.

224 Ibid, p9.

225 Ms Jane McKeon, Group Executive, Government Relations, Virgin Australia, Letter, 20 October 2017.

*travelling for the large mining companies, with the majority of remaining passengers generally from third party contractors.*²²⁶

...On The Other Hand, FIFO Demand Can Also Underwrite RPT Services

Some evidence presented to the Committee suggested that on particular routes (eg northern Goldfields), FIFO bookings were effectively “underwriting the viability of the services and then the balance was that the seats were being sold and they were filling up the plane.”²²⁷ The tenor of this evidence suggested that, without the FIFO demand, many communities run the risk that there would be fewer services or no service whatsoever.

Qantas proposed that:

*The traffic generated by the mining, energy and resources sector underpins the frequency and service levels on many of these intra-WA routes. Without this traffic, it is likely that some routes would not be commercially sustainable or cease to exist without government support.*²²⁸

This proposition was, however, contested:

*We have long heard the rhetoric that we are lucky to have a service at all. I do not believe that. I think that is a myth that has perpetuated and has taken effect so that even if you walk through the streets in small towns, they go, “But we are lucky to have a service at all.”*²²⁹

A New FIFO Block Purchasing/Chartering Model?

A slight variation to the block-booking/seat chartering arrangement can be observed with Chevron’s limited RPT/open-charter flight from Perth to Onslow. Chevron estimates that it will require 5-6 return flights each week for its workers at the Wheatstone project when it is in production and has effectively chartered a service. This service was recently awarded to Virgin Australia to commence in March 2018. Chevron will enable approximately 30 seats to be available to the public on many of the flights. Bookings can only be made 24 hours before departure, though.²³⁰

226 Submission No. 95A from Qantas Airways Ltd, 2 November 2017, p5.

227 Mr Shayne Flanagan, CEO, Goldfields–Esperance Development Commission, *Transcript of Evidence*, 31 August 2017, p6.

228 Submission No. 95A from Qantas Airways Ltd, 2 November 2017, p5.

229 Ms Johanna Ramsay, Independent Aviation Consultant, *Transcript of Evidence*, 13 September 2017, p10.

230 Mr Dale Stewart, Acting CEO, Shire of Ashburton, *Transcript of Evidence*, 11 September 2017, pp1-2.

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Chevron has worked with Virgin, the Department of State Development, the Department of Transport, and the Shire of Ashburton to establish a fixed-price RPT airfare of \$299 each way on this route.²³¹ The cost of the charter flight is underwritten by Chevron but enables the local Onslow community to have increased access to an RPT service at near to cost price.²³² DoT has placed conditions on Virgin's licence to operate this route that require the airline to coordinate a regular community forum in Onslow and provide data to DoT regarding its performance.²³³

Open Market Fares

Some R&E projects may have variable demand, based on commissioning schedules or operational incidents. They may also lack the scale to justify permanent chartering or block-bookings for seats. Other companies make decisions on a corporate level to purchase fares on the open market.

Corporate demand for seats on these flights is often inelastic and many companies are insensitive to the price they pay.²³⁴ The Committee received conflicting evidence regarding the impact that a company's participation in the open market has. A number of witnesses suggested that companies purchasing fares on the open market 'snap up' the cheap fares that are available ahead of time. This essentially crowds out the local community's access to cheaper fares, and/or that the sheer volume of inelastic, price-insensitive demand drives prices up for local community members. The Karratha and Districts Chamber of Commerce and Industry stated "[t]he point is that there are very cheap airfares but Rio Tinto, Woodside and all those get them; we do not."²³⁵

Some companies consider that their participation in the open market for RPT services provides a positive social benefit to local communities and they therefore actively avoid using charter services. In their submission, AMEC provided an example to the Committee where a mining company doesn't use charters but supports a RPT service instead, given the broader benefits the air service offers to the community at Mt Magnet:

...Ramelius Resources chooses to use RPT services, and prior to Ramelius Resources' decision, the Mt Magnet route had the lowest number of passengers compared to others in the northern Goldfields. Furthermore, Ramelius, as a community benefit, provides flights for Mt Magnet

231 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 9 August 2017, p12.

232 Submission No. 94 from the Department of Transport, 28 July 2017, p19.

233 Ibid.

234 Mr Jeff Gooding, CEO, Kimberley Development Commission, *Transcript of Evidence*, 21 August 2017, p3.

235 Mr John Lally, CEO, Karratha and Districts Chamber of Commerce and Industry, *Transcript of Evidence*, 23 August 2017, p3.

*residents for short-notice specialist appointments and return flight back to Mt Magnet following a Royal Flying Doctor flight.*²³⁶

Other operators are cognisant of the impact their purchasing decisions can have on the local community's access to reasonably priced airfares, and have made conscious decisions to only purchase 'fully flexible' fares.

INPEX outlined how, even though the costs of airfare to travel to and from Broome was a significant expense to their operations, it has chosen to purchase tickets on normal RPT services. Broome is an important logistics hub for INPEX's Ichthys LNG Project, and its workers transfer from Perth flights to helicopters to be transported to the Ichthys Field. The majority of its workers travel to Broome the day prior to their scheduled departure for the Field, and overnight in local Broome hotels. INPEX and its contractors use both Virgin Australia and Qantas and have no exclusivity agreements with either operator. All of their workers are booked on RPT flights rather than charters. INPEX submitted that it:

*...and its contractors currently book full economy class fares due to the short notice routine of reservations on the route. We do not purchase restricted economy class fares such as Red e-Deal or Getaway fares.*²³⁷

INPEX's approach allows the cheaper fare classes to remain available to the broader market.

Finding 16

The Committee accepts that the dynamics vary significantly between RPT routes. However, to the extent that block bookings or seat charters essentially underwrite – or cover a substantial portion of the costs – of flights, it is difficult to justify extreme high prices for remaining seats sold to community members, particularly where those seats are purchased under conditions of extreme hardship.

Charter Flights

The Committee received evidence that R&E companies may not have the scale or long-term requirement to block-book significant volumes of seats on individual routes. It also received evidence to suggest that many companies completely opt-out of RPT services, particularly where RPT schedules prove unsuitable for their operational schedules. In these instances, companies charter entire craft for the movement of their workforces (see Figure 2.1 for the main charter routes).

236 Mr Neil Van Drunen, Policy Adviser, Association of Mining and Exploration Companies, , *Transcript of Evidence*, 18 September 2017, pp1-2.

237 Submission No. 100 from INPEX Operations Australia Pty Ltd, 7 August 2017, p3.

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AMEC explained the choice a resource company makes between using a RPT or a charter service was determined “by the cost of flights available and the availability schedule.”²³⁸ A small mining company agreed that price was an important factor as to when they use charter flights:

*...if I have got more than four people... doing a return trip to a site, it is cheaper for me to charter a full separate aircraft than to go onto that nine-seat aircraft which runs only at RPT.*²³⁹

The diversion of significant volumes of FIFO workers to these charter services could jeopardise the sustainability of RPT services to regional towns. The actual extent of FIFO passenger traffic in WA is unclear, as charter operators are not required to report passenger numbers either to airports or to BITRE.²⁴⁰ The Department of Transport’s *Review of Regulated Public Transport Air Routes in Western Australia* noted that in some instances, such as the northern Goldfields region, “the frequency of charter services is often higher than the RPT service flying to the same regional town”, and the flights are often in larger planes than those flying the RPT routes.²⁴¹

Generally, charter air services undertaken on RPT routes are restricted to one flight per client per week, unless an exemption is provided by the Minister for Transport.²⁴² In acknowledging the challenges which chartered flights bring, the State Government has introduced a special condition. A charter company operating on a route which also offers either a regulated RPT service, or an unregulated RPT service with fewer than 150,000 passengers per annum, or has a departure time within less than four hours of a RPT service departure time, will be required to purchase (through their resource industry client) a certain number of seats on the RPT service. The charter company can apply for an exemption to this condition.²⁴³

Finding 17

Charter flights to sites located near RPT destinations have the potential to undermine the viability of RPT services to those destinations.

238 Mr Neil Van Drunen, Policy Adviser, Association of Mining and Exploration Companies, *Transcript of Evidence*, 18 September 2017, p1.

239 Mr Paul Cmrc, Managing Director, Pantoro Ltd, *Transcript of Evidence*, 18 September 2017, p7.

240 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p29.

241 Department of Transport, *Review of Regulated Regular Public Transport Air Routes in Western Australia: Final Public Report 2015*, Government of Western Australia, Perth, Western Australia, 2015, p64.

242 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p74.

243 Department of Transport, *Review of Regulated Regular Public Transport Air Routes in Western Australia: Final Public Report 2015*, Perth, Western Australia, 2015, p9.

Resource Company Airstrips Located Proximate To Existing RPT Airports

The City of Karratha raised with the Committee the ability for the State Government through State Agreements to enable mine operators to construct their own airports close to existing regional airports serviced by RPT flights. There are many airstrips that have been built in remote areas of the State by resource companies, but most are some distance from an airport run by local government (see Figure 2.1 above).

This issue was raised by the City of Karratha because of the recent construction by CITIC Pacific Mining of a new airport at Cape Preston for its Sino Iron project, which is just 70 km from Karratha. Previously, CITIC Pacific flew their FIFO work force to Karratha Airport and then drove them by bus to their mine. For the City of Karratha, there has been an immediate financial impact:

That is 25,000 movements a year effectively that has come out of the City of Karratha through the Karratha airport, and that creates issues. That means that our operating costs do not diminish as a consequence of a reduction of that many passengers.²⁴⁴

The City of Karratha suggested that any additional airports should be located outside the boundary of the City, or about 100 km from the current Karratha Airport.²⁴⁵ WALGA told the Committee that the Shire of Ashburton “has something like four airstrips within 100 kilometres of Paraburdoo.”²⁴⁶

The Committee heard from the small gold mining company Pantoro Ltd that, because of operational restrictions at the Halls Creek Airport, it was considering building its own airstrip about 40km from Halls Creek.²⁴⁷ The Chamber of Minerals and Energy of Western Australia (CME) supports the rights of resource companies to make their own decisions on how to transport their work force to site. It told the Committee that it would not agree with a proposal to prohibit new airstrips or airports set at an arbitrary distance from existing ones as:

CME considers the distance or proximity to an RPT airport should not be the only determining factor regarding approval of private airstrips. ... resources companies take into consideration a number of factors such as employee safety, accessibility to site, and suitability of the

244 Mr Simon Kot, Director, Strategic Projects and Infrastructure Services, City of Karratha, *Transcript of Evidence*, 23 August 2017, p3.

245 Ibid, p11.

246 Mrs Lynette Craigie, President, Western Australian Local Government Association, *Transcript of Evidence*, 18 September 2017, p7.

247 Mr Paul Cmrlec, Managing Director, Pantoro Ltd, *Transcript of Evidence*, 18 September 2017, pp8-9.

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*infrastructure to facilitate required aircraft and number of passenger movements before a decision to build a private.*²⁴⁸

The Committee received evidence to suggest that higher passenger numbers operate to reduce the cost of RPT services. Airstrips operating in close proximity to RPT airports diminish passenger numbers to RPT destinations and potentially undermine the viability of the RPT service. The Committee is concerned that the fares available to local community members will increase as a result.

Finding 18

The development of new resource project airstrips close to existing airports hosting RPT services undermines RPT services.

5.3 Changes In The Market Following The 2012-13 R&E Structural Adjustment

The workforce transportation decisions taken by R&E operators affect regional airfares and regional communities on a day-to-day basis. The cyclical nature of these industries has also had an effect on flight schedules and airfares.

Since 2012-13, throughout regional WA – but particularly in the Pilbara – a number of resource projects have moved from the labour-intensive ‘construction and commissioning’ phase into a ‘production’ mode. The Committee received considerable evidence directly linking the downturn in air passenger traffic with these structural adjustments in the resource and energy sector.

AMEC observed “the State’s mining workforce (employees and contractors) peaked at around 105,000 in July 2013, and has since reduced to an estimated 85,000 at the end of 2016.”²⁴⁹ The Department of Infrastructure and Regional Development’s submission highlighted data from BITRE which shows a concomitant significant drop in RPT passenger movements at the most active airports in regional WA:

*...since the peak of the boom in 2012-13, RPT passenger movements at airports such as Karratha, Port Hedland and Newman have decreased by 43.1%, 31.7 % and 33.1% respectively.*²⁵⁰

248 Submission No. 56B from The Chamber of Minerals and Energy of Western Australia, 13 October 2017, p3.

249 Submission No. 89 from the Association of Mining and Exploration Companies, 31 July 2017, p3.

250 Submission No. 120 from the Department of Infrastructure and Regional Development, 29 September 2017, p2.

The impact of the resource sector’s structural adjustment on RPT passenger movements at Perth International Airport can be seen below in Figure 5.3, compared to the continued growth for Australia overall (Figure 5.2).

Figure 5.2- Total Passenger Movements (Australia)- 1985-2017²⁵¹

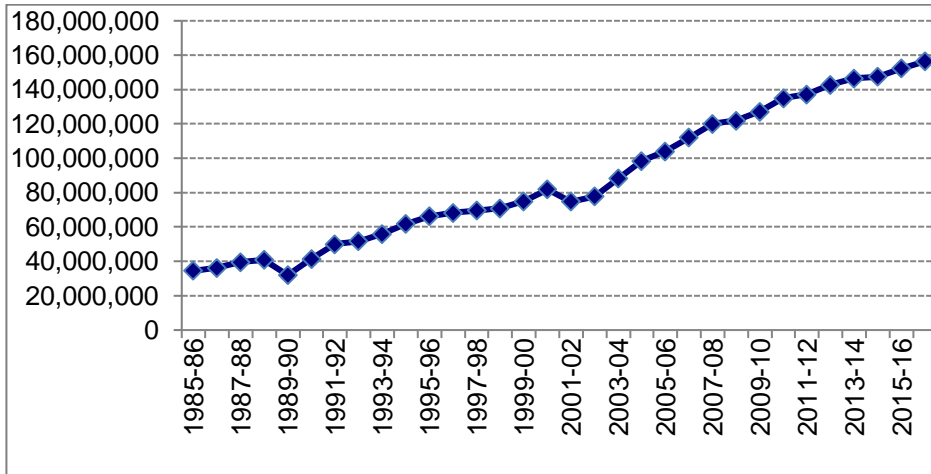
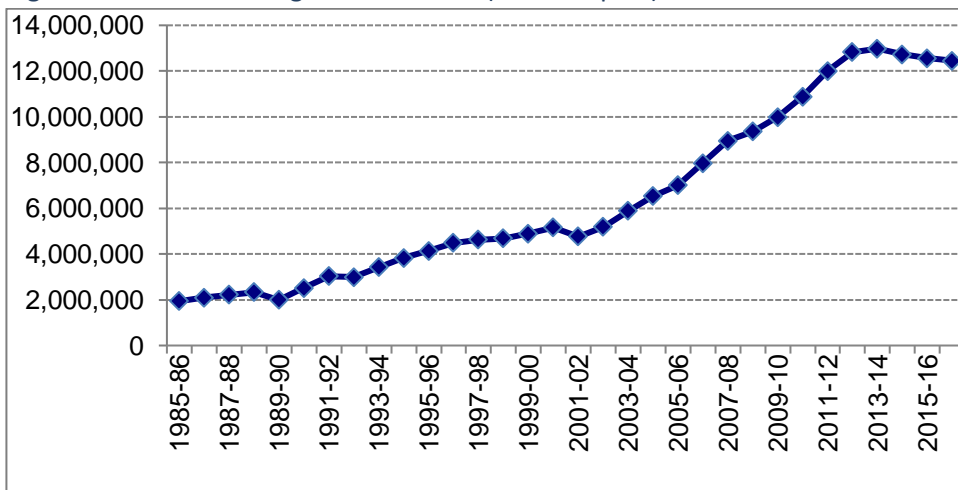


Figure 5.3- Total Passenger Movements (Perth Airport)- 1985-2017²⁵²



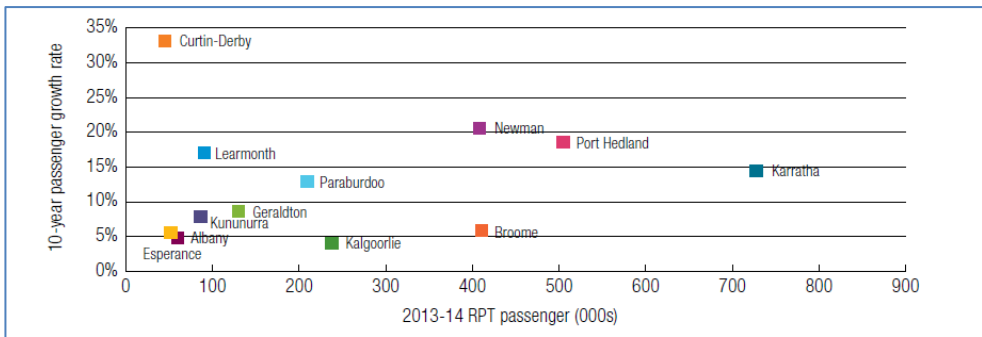
Prior to 2012-13, airports on R&E routes in WA had benefited from substantially higher passenger movement growth rates than the ‘Community’ or ‘Hybrid’ RPT routes (see Figure 5.4 below).

251 Department of Infrastructure and Regional Development, *Aviation Statistics*, 17 February 2015. Available at: https://bitre.gov.au/publications/ongoing/airport_traffic_data.aspx. Accessed on 19 October 2017.

252 Ibid.

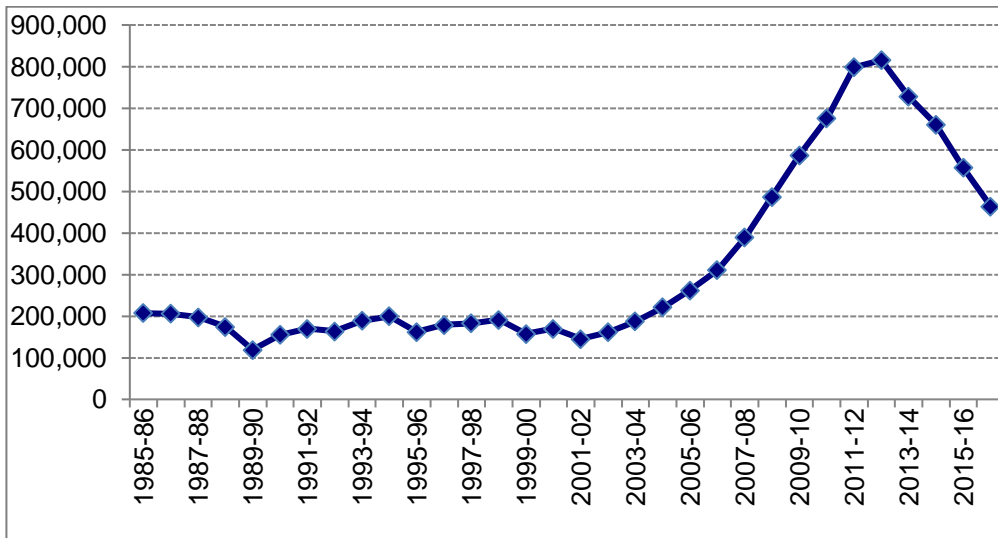
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Figure 5.4- Passenger Movement Growth Rates - 2004-14²⁵³



To illustrate the dramatic changes in passenger movements since 2012-13, Figure 5.5 presents the drop in passenger movements in Karratha, whose airport had the largest number of passenger movements at a regional airport in WA up until then.

Figure 5.5- Total Passenger Movements (Karratha)- 1985-2017²⁵⁴



Data from BITRE shows that for the period 2016-17, the R&E routes from Perth to Karratha (28th), Port Hedland (32nd), Newman (37th) and Kalgoorlie (40th) were ranked in the top 50 Australian routes for total passenger numbers. However, there was only one other route (in Queensland) that had a load factor for that year lower than the 60-

253 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p51.

254 Department of Infrastructure and Regional Development, *Aviation Statistics*, 17 February 2015. Available at: https://bitre.gov.au/publications/ongoing/airport_traffic_data.aspx. Accessed on 19 October 2017.

65% that these four routes had. The top ten routes in Australia had load factors of 80% or higher.²⁵⁵

Qantas told the Committee that since this reduction in passenger movements, it had lost \$255 million in revenue on WA regional air routes.²⁵⁶ As discussed in Chapter 4, the airlines have responded to this large drop in passengers by replacing more modern Boeing 737s and 717 aircraft with older and smaller Fokker F100s or other smaller aircraft²⁵⁷, causing local communities to complain about the reduction in service quality.

The change in the resources sector has reverberated beyond the R&E destinations. Broome International Airport (BIA) gave evidence that, from a high of 456,000 passengers in 2011–12, it only had 365,000 passenger movements in 2016-17- a drop of 20%, led by a change both in the resources sector and the tourism industry.²⁵⁸ This had led to a change in the number of flights to Broome:

*At the moment, we do about 52 jet turnarounds a week into the airport. Five years ago, that was 65. So we have lost some connections to Darwin and some to Perth, but if we did not develop the oil and gas industry, then that situation would have been far worse.*²⁵⁹

While the downturn in passenger numbers was in part attributed to the resources sector, BIA had also suffered a substantial decrease in tourism arrivals. Prior to 2012, BIA received approximately 60% of its passengers for tourism purposes, 20% for business (oil and gas), and 20% of travel was by local residents. While travel by local residents had declined, it had stayed at about 20% of total passenger movements; tourism arrivals had dropped to 46%; while business travel had increased to 34% of total passenger movements.²⁶⁰

Finding 19

Structural adjustment in the resources and energy sector has had a fundamental impact on regional aviation markets.

255 Bureau of Infrastructure, Transport and Regional Economics, *Domestic aviation activity 2016-17*, Table 3: Load factors (%)- annual activity, 2017, p7. Available at: https://bitre.gov.au/publications/ongoing/files/domestic_airline_activity_2016-2017.pdf. Accessed on 14 November 2017.

256 Mr Andrew David, CEO, Qantas Domestic, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p2.

257 Mr Michael Leake, Manager, Habitat Resort Broome, *Transcript of Evidence*, 22 August 2017, p6.

258 Mr Paul McSweeney, CEO, Broome International Airport, *Transcript of Evidence*, 22 August 2017, p1.

259 Ibid.

260 Ibid.

5.4 The Impact Of The Fringe Benefits Tax

The Fringe Benefits Tax (FBT) is a long-standing tax applied by the Australian Government on certain benefits provided by employers to their employees, and is calculated on the taxable value of the fringe benefits provided.²⁶¹ An exemption to the FBT applies to “items primarily for use in the employee's employment”.²⁶² The airfare paid by resource companies to fly their FIFO workforce to their work sites is an exempt expense, thus making the airfare cheaper than the normal airfare. This exemption, along with the cost of the provision of the work camps and their services, was introduced in 2009 and is effectively a Federal Government subsidy costing billions of dollars per annum.²⁶³

The Pilbara Regional Council (PRC) claims that small regional businesses do not benefit from the FBT tax exemptions that resource companies receive, creating a disparity between different types of businesses.²⁶⁴ The PRC told the Committee the FBT matter was the single most pressing issue for the region, as:

*...there is an artificial structure created that adversely impacts pricing into the region. It makes airlines considerably less price sensitive, because their clients are less price sensitive. They are far more driven around schedule than they are around the dollar figure. ...a ticket that would otherwise be \$100 for me, if I pay for one of my staff to travel to the region for work purposes, becomes \$149 by the time you have got the FBT impost. A resource company, of course, avoids that cost entirely if they are flying FIFO workers into the region.*²⁶⁵

The PRC told the Committee that it was working on amending the FBT exemption for FIFO flights “to support and subsidise community fares for regions that are buffeted by FIFO work practices.” It was not looking to completely unwind the FBT exemptions, “but to wind it back a little bit”.²⁶⁶ The PRC proposal was to amend the FIFO exemption contained in subsection 47(7) of the *Fringe Benefits Taxation Assessment Act 1986* from ‘full’ to ‘partial’. PRC proposed that the additional funds collected by the Australian Taxation Office from the reduced exemption would be directed to a regional residents’-only travel subsidy scheme.

261 Australian Taxation Office, *Fringe benefits tax (FBT)*, 2 August 2017. Available at: [ato.gov.au/General/Fringe-benefits-tax-\(FBT\)/](http://ato.gov.au/General/Fringe-benefits-tax-(FBT)/). Accessed on 18 October 2017.

262 Australian Taxation Office, *Work-related items exempt from FBT*, 11 July 2016. Available at: [ato.gov.au/General/Fringe-benefits-tax-\(FBT\)/FBT-exemptions-and-concessions/Work-related-items-exempt-from-FBT/](http://ato.gov.au/General/Fringe-benefits-tax-(FBT)/FBT-exemptions-and-concessions/Work-related-items-exempt-from-FBT/). Accessed on 18 October 2017.

263 Submission No. 74 from the Pilbara Regional Council, 28 July 2017, p7.

264 Ibid, p8.

265 Mr Anthony Friday, CEO, Pilbara Regional Council, *Transcript of Evidence*, 18 September 2017, p3.

266 Ibid, 10.

To prevent the subsidy funds being absorbed into higher fares, the PRC proposes to run a competitive tender for a fixed airline price. Airlines would bid for the status of ‘airline of choice’ for the regional subsidy scheme. Residents would only be able to access the subsidy if they chose to fly with the winning airline, and the airline would have to honour its fixed price for the duration of the scheme. The PRC wrote to the ACCC in December 2016 seeking advice as to whether its proposed scheme would breach section 47 of the *Competition and Consumer Act 2010*.²⁶⁷ It has yet to receive a reply.

The Chamber of Minerals and Energy of Western Australia told the Committee the use of FBT exemptions by the resources sector was no different to any commercial business that has to fly their employees for business purposes.²⁶⁸

Finding 20

Resource and energy companies receive a substantial benefit that is often not available to other businesses, when they fly their FIFO workers to site due to these costs being eligible as an exemption from the Fringe Benefit Tax.

5.5 The State Government Is A Significant Purchaser Of Regional Airfares

Section 4.1 above outlined that the State spends a significant amount each year on the Patient Assisted Travel Scheme (PATS) scheme. A number of witnesses also suggested to the Committee that State Government employees use regional flights in the course of their employment and that, as a significant purchaser of air services, the State Government may be able to leverage its purchasing power to influence regional airfare outcomes:

*It strikes me that government must procure a very large share of air services in the key regional centres. We do not, ...—use that in a particularly purposeful way. I do not know how we might do that, but that is certainly worth exploring. I would be surprised if government’s share of some of those routes is not 30 to 40%.*²⁶⁹

The Department of Finance confirmed that it has a Common Use Arrangement (CUA) for travel by public servants. The use of the CUA is mandatory for domestic travel by government agencies, but is not for Government Trading Enterprises (GTEs), although GTEs can access it if they choose to. Under the CUA, government agencies are required

267 Mr Anthony Friday, CEO, Pilbara Regional Council, Letter, 21 December 2016.

268 Mrs Caroline Cherry, Manager, Economic Competitiveness, Chamber of Minerals and Energy of Western Australia, *Transcript of Evidence*, 18 September 2017, p9.

269 Mr Ralph Addis, Acting Director General, Department of Primary Industries and Regional Development, *Transcript of Evidence*, 16 August 2017, p3.

Chapter 5

to book domestic travel through a specified contractor which is then required to provide regular data to the Department.²⁷⁰

The Department said it:

...regularly negotiates discounts with the major airlines to leverage aggregated expenditure on travel across government. These discounts vary according to the fare type chosen by agencies and range from 8% to 34%. In 2016, discounts negotiated with Qantas and Virgin Australia realised savings of \$3.8 million for intrastate, national and international travel booked under the CUA...²⁷¹

The data provided by the CUA contractor to the Department does not include charter flights nor the number of passengers on each flight. However, the Department was able to provide the Committee with the total fare expense for each government agency and GTE for the period 1 July 2016 to 30 June 2017. The total expense for Government for this period was \$30.5 million.

5.6 The Impact Of A Duopolistic Market Structure

As was discussed in Chapter 2, the vast majority of unregulated regional routes in Western Australia have only two operators: Qantas Airways and Virgin Australia. The Committee received extensive evidence regarding the impact that a duopolistic market structure can have on regional airfares, and the degree to which ‘market failure’ exists in the intrastate aviation market.

As outlined in Chapter 2, the DoT has preferred a ‘light-handed’ approach to market intervention. This approach is based on the premise that competition places downward pressure on prices and acts as a natural deterrent against ‘price gouging’.

The Committee heard repeated evidence suggesting that market forces may not be operating effectively in the WA regional aviation sector. The Parliamentary National Party of Western Australia stated in its submission that it supports:

...deregulation when the deregulated market functions as a normal market. This is not the case in WA, where the intrastate flight market operates as a duopoly in most cases (and a monopoly in some cases) resulting in distorted market outcomes and failures.²⁷²

270 Submission No. 122 from the Department of Finance, 1 November 2017, p1.

271 Ibid, p2.

272 Submission No. 96 from the Parliamentary National Party of Western Australia, 1 August 2017, p3.

This sentiment was echoed in evidence received from destinations right across the State, suggesting that the duopolistic structure of the regional air market is having a significant impact on airfares – essentially that market forces are not operating to place downward pressure on prices. Australia’s North West Tourism stated:

The ideal (and proven) way to bring about lower airfares in a market is to have a robust and competitive commercial environment. The North West region of Western Australia is currently being serviced by two major airlines... These two major airlines do not appear to be actively competing for market share, or for growth in the tourism sector, and therefore there does not seem to be the downward pressure on fares that might normally be expected. This would suggest that seat capacity is being managed very closely in order to maintain yields.²⁷³

The Regional Chambers of Commerce and Industry observed that the two main airline’s price and service offerings were remarkably similar, and only changed when faced with a competitor’s threat:

When a regional location has two commercial airlines servicing it, the similarity of the airfares on individual flights would lead us to believe they can reduce airfares and still operate commercially. It appears that they just only do it when a competitor forces their hand.²⁷⁴

Similarly, the CEO of Kalgoorlie-Boulder stated:

I think if you asked, everybody around here, we would say, “It’s Groundhog Day, and is that Ansett and Qantas flying out there?” The timetables are parallel and the pricing is parallel, except on the odd occasion. They are very close... I would argue that there is very little competitive tension at the present time.²⁷⁵

In Broome, the Committee was told “obviously there is a duopoly here and obviously competition is not working.”²⁷⁶ The City of Karratha agreed:

The Karratha to Perth route suffers from a lack of competition both in the number of operators and options for alternative routing. The area has always had a duopoly providers [sic], be it either Qantas and Ansett or Qantas and Virgin. Similar routes served by either a monopoly or

273 Submission No. 68 from Australia’s North West Tourism, 28 July 2017, p8.

274 Submission No. 31 from the Regional Chambers of Commerce and Industry of WA (Inc), 26 July 2017, pp3-4.

275 Mr John Walker, CEO, City of Kalgoorlie-Boulder, *Transcript of Evidence* 31 August 2017, p4.

276 Mr Peter Taylor, President, Broome Chamber of Commerce and Industry, *Transcript of Evidence*, 22 August 2017, p6.

Chapter 5

*duopoly have airfares at similar levels. Routes where there is a third or fourth operator tend to have lower fares over a consistent period of time throughout the year.*²⁷⁷

The Department of Primary Industries and Regional Development also acknowledged the potential for market failure in a duopolistic market, noting that duopolies “tend to settle into a reasonably comfortable coexistence in terms of pricing regimes. It is very opaque as to how prices are determined, but they seem to gravitate in that direction broadly.”²⁷⁸

Virgin Australia argued that they offered different, and often cheaper, fare offerings to Qantas, and:

*...our advance purchase fares that we talked about on Kalgoorlie and Broome—are cheaper than the Qantas fare offerings even after all of the discounts have been taken into account. ...Virgin has a very clear impetus to offer low fares—as competitive fares as we can—to these regional communities. ...we have lower load factors. We are not profitable on the majority of our routes; therefore, it is very much in our interests to offer our customers low fares and that is what we are very focused on doing.*²⁷⁹

Finding 21

Evidence before the Committee suggests that market forces may not operate to place sufficient downward pressure on airfares to some unregulated regional destinations.

Finding 22

Most unregulated RPT routes in WA are flown by both Qantas Airways and Virgin Australia. A duopolistic market structure may prevent the effective operation of market forces, leading to parallel schedules and similar pricing. This is an important factor contributing to the price of airfares on unregulated routes.

277 Submission No. 4 from the City of Karratha, 12 July 2017, pp2-3.

278 Mr Ralph Addis, Acting Director General, Department of Primary Industries and Regional Development, *Transcript of Evidence*, 16 August 2017, p1.

279 Ms Jane McKeon, Group Executive, Government Relations, Virgin Australia, *Transcript of Evidence*, 11 September 2017, p6.

Chapter 6

Are WA's Landing Fees the Highest in Australia?

“Based on a per passenger charge calculation, these airports are all in the top 15 most expensive airports in the Group’s domestic network, making Western Australia’s regional network the most expensive in Australia.”²⁸⁰

Airport charges were repeatedly advanced during the Inquiry as a major contributor to high regional airfares. The issue has received considerable media attention and a substantial amount of evidence on it was presented to the Committee, warranting detailed consideration of this issue in its own right.

6.1 Are Local Government Airport Charges Too High?

The Regional Aviation Association of Australia noted that the House of Representatives’ Standing Committee on Transport and Regional Services Inquiry into Regional Aviation in 2003 found that regional aviation services are vital to the economic and social wellbeing and the development of Australia’s regional communities. It said that for most of these communities, the local airport is a symbol of their prosperity, and a generator of business in the surrounding region.²⁸¹

YES, Airport Charges Are Too High - According To The Airlines

All of the airlines that provided evidence to the Committee argued that the cost of landing at regional airports in WA was higher compared to other States, and therefore was a major factor in the current cost of regional airfares. Appendix Five lists the airport charges that each regional airport and Perth International Airport has provided to the Committee. Qantas told the Committee:

Qantas (including its regional airlines QantasLink and Network Aviation) currently operate Regular Public Transport (RPT) services to eight regional airports in Western Australia ...Based on a per passenger charge calculation, these airports are all in the top 15 most expensive airports in the Group’s domestic network, making Western Australia’s regional network the most expensive in Australia.²⁸²

280 Mr Ralph Addis, Acting Director General, Department of Primary Industries and Regional Development, *Transcript of Evidence* 16 August 2017, p1.

280 Submission No. 95 from Qantas Airways Ltd, 31 July 2017, p3.

281 Submission No. 52 from the Regional Aviation Association of Australia, 28 July 2017, p2.

282 Submission No. 95 from Qantas Airways Ltd, 31 July 2017, p3.

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Qantas criticised testimony the Committee had received that claimed Qantas was “making large profits on intra-WA, and subsidising other routes” and testimony “that somehow airport charges and other input costs of operating into Western Australia are meaningless or marginal in impact.”²⁸³

Qantas compared its low profit margins to airport charges, “airlines on average globally make \$7 profit per passenger, [regional airport] landing charges above \$30 most significantly affect route economics.”²⁸⁴ However, when questioned what its actual ‘per passenger’ profit figure was on WA regional routes, it would not provide the Committee with this information citing:

*...a range of reasons. There are ACCC obligations, in terms of what we disclose. There are also competitive pressures, and there are also commercial arrangements we have with corporate customers. ... that of the routes in Western Australia, some returned their invested capital, some are marginal flying, and some lose money.*²⁸⁵

Qantas took on notice to provide the Committee further information about its claims. It later provided ‘commercial-in-confidence’ information. The information below was provided on a ‘public basis’ and showed for the 8 airports in WA it operates from, on a total per passenger cost basis, that:

*Regional WA airports charge on average **\$27.36** per passenger (excl. security) compared to a mix of similarly sized airports on the east coast which charge on average of **\$11.95** per passenger (excl. security) ...These eight WA airports charge on average **229%** more than their Eastern counterparts. Moreover, all WA airports except Perth are in the Top 15 most expensive airports in the Qantas network, yet WA airports make up only 15% (9 of 58) of the airports Qantas flies to nationwide.*²⁸⁶
(emphasis in original)

Qantas also provided the Committee with its table of the most expensive 15 airports in Australia on a ‘commercial-in-confidence’ basis. All but one of these non-WA airports have low passenger numbers of under 100,000 per annum²⁸⁷, confirming a link between overall passenger numbers and the level of airport landing charges.

The Committee observes that, while Qantas provided the Committee with a global average profit margin of just \$7 per passenger to argue the impact of high cost of

283 Mr Andrew Parker, Group Executive, Government, Industry and International Affairs, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p4.

284 Ibid.

285 Ibid.

286 Submission No. 95A from Qantas Airways Ltd, 2 November 2017, p3.

287 Ibid, p4.

regional airport charges, during the past two years it has produced record profits. For example, during the 2016-17 financial year the Qantas Group generated \$1.4 billion in profit before taxes while carrying 53.7 million passengers. In the absence of supporting information to enable a more detailed analysis of actual profit margins on the routes relevant to the terms of this inquiry, a raw calculation based on publicly available information regarding Qantas' profit and passenger numbers suggests a profit margin of over \$26 per passenger.²⁸⁸

Virgin Australia submitted similar evidence to Qantas, that:

*Airport charges (terminal, landing and security screening fees) represent a significant proportion of airfares on regional routes. For an aircraft turnaround on these routes in Western Australia, such charges are on average around double those levied by the regional ports we serve in New South Wales and Victoria, on a cost per-passenger basis.*²⁸⁹

Rex (the monopoly operator on the regulated Esperance and Albany routes) claimed the airport charges in WA are 'astronomically high':

*...some 300%-350% higher than the rest of Australia. To put this in context, the revenue received by the airports [Perth and Albany] for the Albany sector is 40% of the revenue that Rex receives (excluding airport taxes and GST).*²⁹⁰

In the example it makes in its submission, Rex calculates the proportions received by it and the two airports by using the average airfare to Albany of \$217.81. However, for a fully-flexible fare of \$299 (ex-GST), the airport charges represent 21% of the revenue Rex receives.

The Committee also received evidence to suggest that Rex has limits on its exposure to airport charges. The City of Albany informed the Committee that it had waived its airport charges for passengers who fly on Rex's new one-way fare of \$99 (which requires a two-night stay in Albany). The City has also negotiated a scheme that limits its airport charges for the next two years to the current level of passengers Rex carries.²⁹¹ If passenger numbers rise above the agreed figure, the City said Rex's aggregate exposure to airport charges does not change from its current maximum:

288 Qantas Airways Ltd, *Annual Report 2017- Positioning for Growth*, nd, p17. Available at: http://investor.qantas.com/FormBuilder/Resource/module/AH_NGR9NxJaXc0W8Qv3Kfg/docs/QantasAnnualReport2017.pdf. Accessed on 24 October 2017.

289 Submission No. 58 from Virgin Australia, 28 July 2017, p3.

290 Submission No. 57 from Regional Express, 28 July 2017, p7.

291 Councillor Dennis Wellington, Mayor, City of Albany, *Transcript of Evidence*, 29 August 2017, p2.

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...if they [Rex] 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% in their profit margin over turnover; we run at less than zero. It is a fact of life.²⁹²

Under this model, the City has also secured a 'community fare' for its residents, incentivised growth for the local tourism industry and is able to recover the revenue it requires for airport operations. If passenger numbers rise, Rex captures upside: airport charges as a proportion of Rex's total costs reduce, incentivising Rex to grow the route and hopefully placing downward pressure on fares.

The arrangements reached in Albany represent a new collaborative approach in WA between an airline operator and a local government authority. The Department of Transport (DoT), which had been heavily involved in the development of this new model, commented that:

All commercial decisions need to work for both parties; they need to work for the airline as a commercial entity and they need to work for the community as a community outcome... The community airfare that exists in Albany and Esperance... That was a very new thing for a council to say that it was going to change dramatically its fees and charges approach and sufficiently educate its councillors, its council. To say, "We want to take a brand-new approach to how we do fees and charges" requires quite a few steps, both at an officer level and at a council level.²⁹³

The Association of Mining and Exploration Companies told the Committee that it consistently received feedback from its members, especially when they were negotiating charter flights, that "there are higher costs using some of the regional airports and a complete lack of transparency over how these costs and fees are determined."²⁹⁴

The Regional Aviation Association of Australia (RAAA) agreed with its members Virgin Australia and Rex that airport pricing and taxes was one of the major contributing factors to perceived high cost of regional airfares. It claimed that there were significant inconsistencies between metropolitan and regional airport head tax charges with

292 Ibid.

293 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 1 November 2017, p16.

294 Mr Neil Van Drunen, Policy Adviser, Association of Mining and Exploration Companies, *Transcript of Evidence*, 18 September 2017, p2.

“RAAA members reporting some as low as \$5 and some councils charging upwards of \$50 [per passenger] with no consultation or notice.”²⁹⁵

Rex confirmed to the Committee it pays \$4.50 per passenger for its regional flights at Sydney Airport, compared to \$20 at Perth International Airport (PIA).²⁹⁶ However, in 2016-17 Sydney’s fixed costs were spread over nearly 43 million passengers, while PIA’s were spread over only 12.5 million passengers.²⁹⁷ Rex also highlighted the different monitoring of airport prices by the ACCC as a factor for the differences between the fees at Perth and Sydney:

*The ACCC monitoring of Perth Airport only relates to the service delivery; it does not relate to airport charges. The only capital city airport in Australia that has regulated airport pricing is Sydney Airport. Sydney Airport is a declared airport and under Federal Government legislation, they have to seek approval before they increase their charges. I think that that is a big reason why we are paying \$4.50 for regional air services in Sydney and we are paying \$20 for the same service at Perth.*²⁹⁸

It’s potentially problematic to draw conclusions on the cost of WA’s regional airfares based on raw ‘cents per kilometre’ comparisons with Eastern States (and overseas) routes. Equally, a rough ‘X vs Y’ comparison of landing fees between WA and eastern States’ airports would be misleading. As was noted previously, WA’s regional airports generally serve fewer passengers than airports in the eastern States, but must nonetheless recover both fixed and variable costs. Lower passenger numbers will inevitably lead to higher charges. This does not, however, necessarily mean that landing charges are the major factor contributing to high airfares, given the contribution that landing fees make to overall airfares on individual routes.

Finding 23

The debate about the cost of WA airport charges relative to airport charges in the Eastern States is similar to the claims made about high regional airfares in WA. ‘Apples for apples’ comparisons are difficult and should be made with caution.

295 Submission No. 52 from the Regional Aviation Association of Australia, 28 July 2017, p4.

296 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p4.

297 Department of Infrastructure and Regional Development, *Aviation Statistics*, 17 February 2015. Available at: https://bitre.gov.au/publications/ongoing/airport_traffic_data.aspx. Accessed on 19 October 2017.

298 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, pp4-5.

Chapter 6

NO, Prices Aren't High- According To The Local Governments And The Operators That Manage Them

The Australian Airports Association (AAA) is a national non-profit organisation, founded in 1982. It represents the interests of over 380 members - including more than 260 airports and aerodromes Australia wide. The AAA submitted that airports provide essential infrastructure services to airlines, however airport charges constitute a relatively small part of airline cost bases. These costs vary substantially depending on the nature of the routes and the airline business models concerned.²⁹⁹

The AAA told the Committee that it estimated that “regional airport charges make up between 5 and 13% of the cost of a regional airfare in WA, depending on how heavily discounted that fare is.”³⁰⁰ The AAA claims that, given the relatively low levels of competition and demand elasticity in regional aviation markets, “any reduction in airport charges is unlikely to have a material effect on airfares and passenger demand.”³⁰¹

The AAA provided data from an ACIL Allen report which found that:

- on average 61% of Australian regional airports had budget deficits in 2014-15;
- nearly 40% of Australia’s regional airports expect persistent budget deficits over the next 10 years; and
- the cost of operating a regional airport is expected to rise by 38% over the next decade.³⁰²

The AAA surveyed its members on the issue of recent investments they had made. It estimates that the WA regional airports have invested in excess of \$200 million over the last decade. Notable regional projects included:

- the \$100 million redevelopment of Karratha Airport;
- more than \$40 million in improvements at Newman Airport;
- investments in runways and terminal improvements at Broome International Airport that cost nearly \$25 million;

299 Submission No. 70 from the Australian Airports Association, 28 July 2017, p2.

300 Ms Caroline Wilkie, CEO, Australian Airports Association, *Transcript of Evidence*, 11 September 2017, p2.

301 Submission No. 70 from the Australian Airports Association, 28 July 2017, p2.

302 Ibid, p9.

- the City of Albany and the Shire of Esperance investments of over \$3 million and \$6 million respectively in terminal redevelopments to accommodate aviation security screening;
- the City of Greater Geraldton investment of \$2.2 million to accommodate aviation security screening; and
- the Shire of Wyndham-East Kimberley investment of almost \$3.5 million on runway repairs at the Kununurra Airport.³⁰³

The pricing of airport services in Australia was reviewed by the Productivity Commission in 2002, 2006 and 2011. The next review is scheduled for 2018. According to the AAA, the Productivity Commission found in 2011 that only four airports – Sydney (Kingsford Smith), Melbourne (Tullamarine), Brisbane and Perth – possessed sufficient market power to warrant some form of regulatory oversight.³⁰⁴ The AAA said that the Productivity Commission found “in practice, aeronautical charges only have a marginal effect on airfares.”³⁰⁵

The AAA gave a hypothetical example of a 10% reduction of airport charges at Broome, one of the State’s most popular destinations, “take the princely sum of 10% off their charge at around \$60, that reduces the airfare to Broome by \$6. So it is \$984, not \$990.”³⁰⁶

In a supplementary submission, the AAA provided information from the Australian Competition and Consumer Commission’s *Airport Monitoring Report 2011-12* that the ACCC noted:

*It is difficult to aggregate all services and prices into a single average price of aeronautical services for monitoring purposes. The lack of a single aggregate price complicates the task of establishing trends over time and comparing prices across airports.*³⁰⁷

Perth International Airport (PIA) said that negotiating commercial terms with the large airlines was “long and time-consuming” and that an agreement with Qantas that “says ‘conditions no less favourable’, it means you cannot give Virgin a discount if you do not

303 Ibid, p11.

304 Ibid, p12.

305 Ibid, p15.

306 Mr Guy Thompson, Chair, Australian Airports Association, *Transcript of Evidence*, 11 September 2017, p4.

307 Submission No. 70A from the Australian Airports Association, 25 August 2017, p2.

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give it to Qantas... you are obliged not to play a tune playing one off against the other.”³⁰⁸

Finding 24

Airport landing fees constitute a varying, but generally small, component of the total costs of a regional airfare.

Finding 25

Local Government Authorities and private airport operators have been open and transparent with the Committee regarding the calculation and the level of their landing fees.

6.2 Airports Need To Be Maintained Into The Future Predominantly By Small Local Governments

Some submissions provided to the Committee criticised local government’s approach to depreciating airport assets and providing for long-term asset replacement.

The City of Greater Geraldton submitted that only a small minority of regional airports in WA operate at a true commercial operating profit, whereby they recover their capital costs and include funds to renew assets. It said that the majority of regional airports in WA operate at a real accounting loss and “a good proportion of regional airports cannot generate sufficient funds to cover the costs of day to day airport operations and maintenance, requiring subsidy from municipal funds by their owner Councils.”³⁰⁹

According to the City of Geraldton, the only airports that generate sufficient, accounting profits to be able to cover all their operating costs, plus generate funding for all of their capital asset renewal demands, are “the larger regional airports in WA – most probably those with annual passenger movements over 300,000 with numbers boosted by FIFO services rather than just RPT.”³¹⁰ In 2016-17, this would mean just the airports at Broome, Karratha and Port Hedland.³¹¹

The City of Albany gave evidence that they ran their airport at a loss while the airline which serviced it, Rex, had a 6.3% profit margin last year, and that with only 56,000 passengers:

308 Mr Guy Thompson, Chair, Australian Airports Association, *Transcript of Evidence*, 11 September 2017, p5.

309 Submission No. 3 from the City of Greater Geraldton, 10 July 2017, p11.

310 Ibid.

311 Department of Infrastructure and Regional Development, *Aviation Statistics*, 17 February 2015. Available at: https://bitre.gov.au/publications/ongoing/airport_traffic_data.aspx. Accessed on 19 October 2017

*...we generate a bit over \$2 million [in income]. 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 [operations] already.*³¹²

DoT admitted that airport landing charges were a significant impost on regional ticket prices in WA, for example making up about 50% of Rex's low-cost community fare to Albany and Esperance, but stated that this was because of a different approach taken by local governments in WA:

*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.*³¹³

DoT provided the example of the Walgett Shire Council in NSW that did not charge airport fees at all, and Armidale Dumaresq Council, which charged "\$14.90 per inbound and outbound passenger for the first 70,000 passengers. Once this threshold was reached the fee reduced to \$9.70 per passenger."³¹⁴

The City of Karratha admitted to the Committee that it operates Karratha Airport as a business and the return on this asset goes into an infrastructure reserve fund which provides funds for both airport, and non-airport, infrastructure in the City. It had spent over \$100 million of its own funds on the airport and had plans for a further \$40 million improvement program. The Council agreed it had been able to realise some significant benefits through the airport revenue, and "the one thing from the City of Karratha's perspective is that it has reinvested all those funds back into infrastructure. It has not banked those funds."³¹⁵

The City of Karratha argued that its approach to devising its airport charges led to similar cost levels to other airports. It provided comparative costs for a Fokker F100 flight at full occupancy of 100 seats arriving in Karratha from Perth, "our charge to the airline is \$5,482. Perth would be charging \$5,811; Alice Springs, \$5,676; and ...Darwin ... \$5,922."³¹⁶

In terms of its per capita security charges, the City said they:

...are very much an open book. We share the exact costs of what our security costs are with the airlines and it is effectively done on a

312 Mr Dennis Wellington, Mayor, City of Albany, *Transcript of Evidence*, 29 August 2017, p2.

313 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, *Transcript of Evidence*, 9 August 2017, p17.

314 Submission No. 94 from the Department of Transport, 28 July 2017, p13.

315 Mr Simon Kot, Director, Strategic Projects and Infrastructure Services, City of Karratha, *Transcript of Evidence*, 23 August 2017, pp6-7.

316 Ibid.

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*reimbursement basis. At the end of the financial year, if we have overcharged, we repay the airlines based on our security charge.*³¹⁷

The Shire of Wyndham–East Kimberley explained that it has a separate reserve fund for airport operations and repairs, “but the money is held separately. Whatever we raise at the airport goes into the airport and stays at the airport.”³¹⁸ Some of the costs involved in maintaining and expanding a regional airport are very high for small communities. The Shire of Wyndham–East Kimberley has a population of less than 8,000 people. In 2016 it undertook an airport runway upgrade that cost approximately \$6 million. It paid 60% of this sum from its airport reserves. The rest of the upgrade was paid for by the State Government.³¹⁹

The Shire of Wyndham–East Kimberley is also investigating the cost of extending the runway by 600 metres, from its current length of 1,800 metres. This would allow the standard planes that fly between capitals in Australia’s eastern States – the A320s and the Boeing 737–800s (which can carry approximately 160–170 passengers) – to land at Kununurra. This extension is part of the Shire’s plan to boost tourism to the East Kimberley, to grow their economy and provide more jobs. The runway extension would allow passengers to fly directly from anywhere in Australia, including Tasmania, and allow direct non-stop flights to South-East Asia.³²⁰

The cost of this proposed extension would be about \$20 million dollars. The Shire claimed to the Committee that only way it could be funded is by putting aside funds by depreciating the current \$75 million asset base.³²¹

The airlines raised the issue of depreciation and future airport development with the Committee, questioning whether it was appropriate for airport owners to seek to recover depreciation through airport charges. While the airlines may criticise those local governments seeking to recover depreciation through airport charges, the Committee notes that it is a normal commercial practice. Moreover, it is essential to fund the replacement of assets as they reach the end of their useful lives. Indeed, the airlines themselves depreciate their own asset bases. For example, for the 2016-17 financial year nearly 10% of Qantas’ expenses (or about \$1.4 billion) was for

317 Ibid.

318 Mr Carl Askew, CEO, Shire of Wyndham–East Kimberley, *Transcript of Evidence*, 21 August 2017, p10.

319 Ibid.

320 Mr Paul Bawden, Manager, East Kimberley Regional Airport, Shire of Wyndham–East Kimberley, *Transcript of Evidence*, 21 August 2017, p11.

321 Ibid.

depreciation.³²² For Virgin Australia, the figure was about 6% of its 2016-17 expenses (or nearly \$310 million).³²³

Virgin was also very critical in its submission of one private airport's lack of consultation on an asset upgrade, raising concerns that the operator had over-dimensioned the asset, incurring unnecessary expense and thereby increasing passenger fees:

*There is a need for regional airport operators to engage in genuine consultation with their airline customers in relation to the delivery of new infrastructure and the consequential implications for pricing. In a recent case with one privately-operated airport, consultation regarding new investment was extremely poor and there was a complete lack of transparency regarding pricing impacts.*³²⁴

On the other hand, PIA said that the current agreement for airport charges was for a period of seven years. It took two-and-a-half-years to conclude as it involved discussions with 29 airlines who did not always agree on the \$1.2 billion worth of capital investment which PIA proposed to build over that period. The process was described as:

...a conversation to get to what do you need to build and then what is the standard at which you want to operate your facilities.

*So we agree the capital cost. We agree the life of the asset. We agree the operating costs per year based on what we think we need to do, and then the last piece of the puzzle is we haggle over the risk of passengers. How many do you say you think will fly in the next five or six years? How many do we think will fly in the next five or six years? That becomes the numerator and you divide it and then it becomes a dollar figure per passenger.*³²⁵

According to the City of Greater Geraldton, one local government in WA had trouble enforcing its airport fees, as:

322 Qantas Airways Ltd, *Annual Report 2017, Consolidated Income Statement*, 2017, p56. Available at: http://investor.qantas.com/FormBuilder/Resource/module/AH_NGR9NxJaXc0W8Qv3Kfg/doc/s/QantasAnnualReport2017.pdf. Accessed on 20 October 2017.

323 Virgin Australia Annual Report 2017, *Consolidated Statement of Profit or Loss*, 2017, p46. Available at: www.virginaustralia.com/cs/groups/internetcontent/@wc/documents/webcontent/~edisp/2017-annual-report.pdf. Accessed on 20 October 2017.

324 Submission No. 58 from Virgin Australia, 28 July 2017, p3.

325 Mr Guy Thompson, Chair, Australian Airports Association, *Transcript of Evidence*, 11 September 2017, p11.

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*...at least one major RPT airline has disputed the level of aviation fees and charges with at least two regional airport operators in WA, refusing to pay increased charges, asserting price gouging in setting of airport aviation fees and charges.*³²⁶

According to the City of Greater Geraldton, threats of litigation “appear to have resolved the issue between that airline and the airport operators.”³²⁷ The City also said:

*Federal inquiries to date have found that RPT airlines are easily positioned to counter any inappropriate exercise of monopoly-like powers by the very much smaller entities (regional local government councils) that own/operate most regional airports in Australia.*³²⁸

Finding 26

There are different passenger fee models used by airports around Australia. In Western Australia, local governments tend to operate airports as separate business units, and seek to recover both operating and capital costs. Recovered capital costs are frequently placed into reserves for future airport upgrades, repairs and maintenance. The Committee received no evidence that local councils were charging unreasonable fees.

6.3 The State Government’s Role In Airport Costs

The State Government assists local governments with airport costs, providing up to a 50% contribution for airport infrastructure upgrades, repairs and maintenance under the Regional Airport Development Scheme (RADS) scheme. WA was the first State to provide such funding. RADS has been in place for many years and has enjoyed bipartisan political support over that time.³²⁹

The Department of Transport (DoT) submitted that it is currently developing a Strategic Airport Asset and Financial Management Framework for regional airports that seek funding through RADS. It said that the Framework will:

*...aim to develop a standardised template for asset management at regional public airports including the determination of fees and charges required to maintain and replace assets. The development of a standardised template provides the potential for greater transparency of setting of fees and charges at regional airports.*³³⁰

326 Submission No. 3 from the City of Greater Geraldton, 10 July 2017, p12.

327 Ibid.

328 Ibid, p11.

329 Department of Transport, *RADS overview*, 9 October 2017. Available at: www.transport.wa.gov.au/aviation/rads-overview.asp. Accessed on 20 October 2017.

330 Submission No. 94 from the Department of Transport, 28 July 2017, p13.

DoT will engage with relevant local government, airlines and other stakeholders during 2017-18 while it develops the new Framework.³³¹

During 2016-17, RADS provided \$4.5 million to 24 projects with a combined project value of \$13 million.³³² The allocation in the 2017-18 Budget for RADS is \$5.6 million.³³³ The Department of Primary Industries and Regional Development provided the details in Table 6.1 of the \$80.6 million in Royalty for Region grants made so far via RADS to local governments to upgrade regional airports.

Table 6.1- Recent grants to support regional airport upgrades and expansions³³⁴

Agency		Project Budget	State of Project
Shire of Cue	Airfield	\$109,798	Acquitted
Shire of Cue	Airfield Terminal Building	\$187,718	Acquitted
Shire of Wagin	Airport	\$6,000	Acquitted
Shire of Wyalkatchem	Airport	\$136,500	Acquitted
Shire of Wyalkatchem	Airport Development Project	\$390,627	Acquitted
Town of Port Hedland	Airport Parking	\$60,000	Acquitted
Shire of Laverton	Airport Refuelling Facilities	\$119,858	Acquitted
City of Greater Geraldton	Airport Security Upgrade Project	\$1,200,000	Acquitted
City of Bunbury	Airport Upgrades	\$58,000	Acquitted
City of Busselton ³³⁵	Busselton Regional Airport	\$45,933,094	In Progress
Shire of Derby/ West Kimberley	Curtin Taxiway and Buildings	\$55,000	Acquitted
Shire of Derby/ West Kimberley	Derby Airport Reseal	\$100,000	Acquitted
Shire of Derby/ West Kimberley	Derby Airport Water Tank & Pressure Pump	\$20,000	Acquitted

331 Ibid.

332 Department of Transport, *Annual Report 2016-17*, 16 August 2017, p44. Available at: www.transport.wa.gov.au/mediaFiles/about-us/AR_P_Annual_Report_Full_report_2016_17_d.pdf. Accessed on 10 November 2017.

333 Department of Transport, *Funding allocation*, 6 October 2017. Available at: www.transport.wa.gov.au/aviation/funding-allocation.asp. Accessed on 20 October 2017.

334 Ms Kat Lothian, Manager, Office of the Director General, Department of Primary Industries and Regional Development, Email, 4 September 2017.

335 The Committee notes that there may be other sources of capital for this project.

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City of Greater Geraldton	Geraldton Regional Airport Landside Development-Essential Utilities Upgrade	\$2,755,200	Acquitted
Shire of Exmouth	Learmonth Airport Upgrade	\$454,547	Acquitted
Shire of Narrogin	Narrogin Airport	\$7,236	Acquitted
Dryandra Voluntary Regional Organisation of Councils	Narrogin Airport Headworks Power Upgrade (2010-11)	\$279,438	Acquitted
Shire of Carnarvon	Redevelopment of Carnarvon Airport	\$1,250,000	Acquitted
Shire of Dundas	Norseman Airfield Upgrade	\$1,450,000	In Progress
Batavia Regional Organisation of Councils	Power Upgrade Narngulu Geraldton Airport & Airport Technology Park (2010-11)	\$241,534	Acquitted
Shire of Yilgarn	Southern Cross Airport	\$45,000	Acquitted

The Federal Government also provides a small amount of funding for the maintenance of remote airstrips. Round 4 of the Remote Airstrip Upgrade Program (RAUP) recently awarded about \$11.9 million to projects, of which WA projects were awarded nearly \$1 million. The only grant for an airport that receives RPT flights was to the Shire of Wiluna, which received \$372,000 to install a stock-proof perimeter fence and repair its main runway.³³⁶

Finding 27

The State Government indirectly subsidises regional airfares by providing substantial assistance to local governments for their airport development and maintenance with funds provided, including under the Regional Airport Development Scheme.

The Committee notes that local government authorities were transparent and forthcoming with information on their landing fee structures, both with respect to the construction of their charges and their cost-recovery models. Appendix Four provides the landing fee information presented to this inquiry for the larger airports, enabling an assessment of the contribution this cost component has to the overall fares offered to

336 Department of Infrastructure and Regional Development, *Remote Airstrip Upgrade Programme Round 4- Approved Projects*, 10 February 2017. Available at: infrastructure.gov.au/aviation/regional/rau-round-4.aspx. Accessed on 17 October 2017.

passengers. This is in stark contrast to claims that have been made in the media, and some submissions to this inquiry, that LGA's were not transparent.

6.4 Federal Government Factors Also Impact Landing Fees

Security screening charges are one of the major costs that are required to be borne by most Australian airports, but particularly small regional airports with smaller passenger movements. Following the National Aviation White Paper, *Flight Path to the Future*, the Federal Government regulations were amended in 2011 to require the security screening of passengers when their airplane has a maximum take-off weight (MTOW) of more than 20,000 kilograms, unless the flight was a closed-charter flight.³³⁷ This limit impacts upon the cost of services at regional airports. For example, it means that passengers on the previous Virgin Australia flights to Albany were required to have security screening, while the current Rex passengers in the smaller SAAB plane do not.³³⁸

At Perth International Airport, passengers flying on planes below the 20,000 MTOW limit (such as to Albany) are still screened, as they use the same terminal as domestic departures that are above this limit. For arriving passengers on the lighter planes or closed charters the Committee was told:

*...in the Pilbara, if you fly from Barimunya to Perth you are not screened at Barimunya, so when you land at Perth we have to keep you separate from the screened, outbound passengers. ...Rex's services from the South West, they fly and land at Terminal 2. They come in through a different end of the terminal and walk along the front of check-in to get their bags.*³³⁹

Initially, the Commonwealth paid for the infrastructure and equipment required for the screening in regional airports, but the airports are now responsible for the ongoing operational costs and any upgrade costs. These costs are included in a passenger's airfare and are "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."³⁴⁰

337 Australian Government, *Aviation Transport Security Amendment Regulations 2011 (No. 2)*, nd. Available at: legislation.gov.au/Details/F2011L02608/Explanatory%20Statement/Text . Accessed on 16 October 2017.

338 Mr Brett Hughes, Executive Director, Transport Strategy and Reform, Department of Transport, *Transcript of Evidence*, 9 August, p18.

339 Mr Guy Thompson, Chair, Australian Airports Association, *Transcript of Evidence*, 11 September 2017, pp12-13.

340 Mr Brett Hughes, Executive Director, Transport Strategy and Reform, Department of Transport, *Transcript of Evidence*, 9 August, p18.

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The significant cost impact of operating this equipment was highlighted by the Shire of Wyndham–East Kimberley:

*...the Federal Government’s Office of Transport Security determined earlier this year that certain types of screening equipment no longer met their default approval, and that was particularly the stuff that takes the body [scans] and the explosives’ one. They decreed, at six months’ notice, that we had to replace all of our equipment.*³⁴¹

The Shire is required to fully-fund the replacement costs of about \$150,000.³⁴²

The City of Albany, the Shire of Esperance and the City of Greater Geraldton have made significant investments of over \$3 million, \$6 million and \$2.2 million respectively in terminal redevelopments to accommodate aviation security screening.³⁴³

Appendix Four shows that the fare applied for screening passengers at regional airports range from a low of \$9.05 per head at the Kalgoorlie airport to \$21.60 per head in Kununurra. Generally, this fee correlates to the total number of passengers using an airport, as they are lower where the fixed cost (such as staff wages) can be spread over a larger number of passengers. The Shire of East Pilbara said that, at Newman Airport, the security screening costs “adds only between 1% and 2% to the total ticket price. This does however represent about 35% of our passenger charge.”³⁴⁴

The Regional Aviation Association of Australia submitted to the Committee that it was not appropriate or sensible to impose security costs for large aircraft on small regional aircraft. It welcomed a review of proportionate security measures at regional airports “which will aid in reducing overall costs on airport security equipment and additional staff”.³⁴⁵

In a recent discussion about whether security screening should be reintroduced for passengers on the smaller Rex aircraft at Albany Airport, Hon Peter Watson MLA, the local member, supported the proposal but Rex said it would add about \$750,000 per annum in additional fees for passengers.³⁴⁶

341 Mr Paul Bawden, Manager, East Kimberley Regional Airport, Shire of Wyndham–East Kimberley, *Transcript of Evidence*, 21 August 2017, p9.

342 Ibid, p10.

343 Submission No. 70 from the Australian Airports Association, 28 July 2017, p11.

344 Submission No. 35 from the Shire of East Pilbara, 27 July 2017, p4.

345 Submission No. 52 from the Regional Aviation Association of Australia, 28 July 2017, p8.

346 Mr Tayler Neale, *Albany Advertiser*, ‘Increasing airport security is ‘giving in to hysteria’, 8 August 2017. Available at: thewest.com.au/news/albany-advertiser/increasing-airport-security-is-giving-in-to-hysteria-ng-b88560033z. Accessed on 16 October 2017.

Finding 28

Separate to airport landing fees, the cost of maintaining and providing security services on unregulated RPT routes, due to a Commonwealth Government requirement, is a significant cost on each passenger fare.

Chapter 7

Potential Industry Initiatives To Lower Prices

Industry has a responsibility to consult and consider the interests of the communities in which they operate, in addition to their shareholders.

‘Industry’ is a broad concept. This chapter takes a broad view of the ‘industry’ players that have the potential to shape regional airfares. It outlines a range of measures the airline industry could either introduce or improve to reduce regional airfares, ranging from directly lowering prices for residents, to contributing to the growth of tourism in regional towns. It also acknowledges other ‘industries’ – particularly the tourism industry – and the actions they have taken to contribute to lower regional airfares.

7.1 A Social Responsibility To Provide Affordable Airfares?

Air Routes Are Seen As An Essential Form Of Public Transport

The RPT routes serving remote towns in Western Australia are seen by residents as constituting an essential public transport service, akin to buses and trains for people living in metropolitan Perth. The Shire of Derby/West Kimberley explained that:

For the critical connectivity and just support of all the economic development, this is our public transport, which is one of the key points that come up from the community when we talk to them. It is essential, whether that be for the community, for health et cetera.³⁴⁷

The Department of Transport’s (DoT) submission states unequivocally that “[a]ffordable airfares, are central both to the community’s lifestyle and wellbeing as well as regional development.”³⁴⁸

The National Party told the Committee:

It cannot be left to commercial providers to dictate pricing and services to captive consumers. The State invests hundreds of millions of dollars every year into the metropolitan transport system—buses and trains are essential in underpinning critical linkages in and around the Perth metropolitan area and outer suburbs. ...The regional air transport network is equally important to remote and regional areas, yet

347 Mr Stephen Gash, CEO, Shire of Derby/West Kimberley, *Transcript of Evidence*, 22 August 2017, p2.

348 Submission No. 94 from the Department of Transport, 28 July 2017, p3.

Chapter 7

*government policy and regulation has failed to provide a network that is efficient and affordable.*³⁴⁹

In each of the communities that the Committee visited, it heard of local initiatives that had commenced with the aim of ensuring their RPT service remained in place and that airfares were more affordable. In section 7.4 below, the tourism-focused initiatives of a number of towns are presented. Not all of these plans are based around tourism though, some involve providing financial support to ensure their RPT service survives:

*...the Shire of Derby/West Kimberley ...has out of necessity worked with industry to look at value-adding and underwriting of air services that have a significant support for the community while still being fit for purpose and meeting the demands of industry.*³⁵⁰

Variable Community Engagement By Airlines

The Tourism Council WA told the Committee that the major airlines' headquarters in the eastern States did not understand local issues very well, "[p]lease bear in mind that no decisions are made about airfare prices for, say, Qantas and Virgin, from anyone in Western Australia because decisions are made from Sydney."³⁵¹

The airlines have made different levels of effort at engaging with local communities to understand and deal with their unhappiness with the current level of airfares. DoT recounted the important impact made by Rex's efforts at engaging with the communities in Albany and Esperance about their new regulated routes that were to be flown by turboprop aircraft and no longer by a jet:

*...one of the things that Rex has done very well ...is that it has been very upfront with the community. Day one when it got down there it said, "Right. Let's be really clear about every airfare and what we get, what Albany airport gets and what Perth Airport gets and you can see that's how the fare is split up." I suppose they went through, if you like, quite a good education process, and that increased transparency in my experience, having been there with Virgin and then with Rex. It took the heat out of the room—it really did. It changed the dynamic quite significantly.*³⁵²

349 Mr Vincent Catania MLA, The Nationals WA, *Transcript of Evidence*, 13 September 2017, p2.

350 Mr Stephen Gash, CEO, Shire of Derby/West Kimberley, *Transcript of Evidence*, 22 August 2017, p1.

351 Mr Evan Hall, CEO, Tourism Council WA, *Transcript of Evidence*, 18 September 2017, p3.

352 Mr Peter Ryan, Director, Aviation Policy and Programs, Department of Transport, *Transcript of Evidence*, 1 November 2017, p9.

The Shire of Esperance corroborated DoT's evidence and praised the efforts of Rex to communicate with it:

We also talk directly with Rex on a regular basis. So should there be any issues with a particular flight or something like that, we will get correspondence either from Rex directly straight up or we will ask whether they have heard about such and such happening on this particular flight. So we have a fairly direct flow of information between us and Rex.

I have got direct contact to Rex's CEO if I need to if there is a major issue. Like most things, there has been some negotiation on leases at the airport and things like that. ... I would say that our relationship is pretty good at this stage and we are hoping that will continue. I suppose that is what led to us being able to work with them in regards to fixing our airport fees with them over the last 12 months.³⁵³

The Shire described its relationship with Rex as a 'partnership' and "we see that if Rex does well, then our community should do well as well."³⁵⁴ It has found that Rex's approach was very different to Virgin Australia, which had previously flown the Perth-Esperance route, "we had no agreement with the previous provider ...I would probably say that our relationship with Virgin was very different to what we have with Rex."³⁵⁵

The Albany Chamber of Commerce and Industry similarly stated:

We have seen a change with Rex airlines, and I must say a pleasant one. They have changed their schedule; they listen to the local community and to the Chamber of Commerce. ...The schedule is now more suitable for Albany businesses. You can fly up in the morning, be in the CBD by 9:00am, and do a full day's work, be back at the airport to catch a plane at 7:30pm and be home. You have removed the accommodation costs from it and you can do a full day's work rather than five hours in the CBD. Rex has listened.³⁵⁶

Rex submitted that part of its success over the past 15 years has been its commitment to give back to regional communities by supporting local charitable and social causes (such as the Taste Great Southern Festival in WA) and supporting cases of residents' hardship. It is mindful of the tremendous social and economic impact its services have

353 Mr Matthew Scott, CEO, Shire of Esperance, *Transcript of Evidence*, 30 August 2017, p6.

354 Ibid.

355 Ibid.

356 Mr Russell Clark, CEO, Albany Chamber of Commerce and Industry, *Transcript of Evidence*, 29 August 2017, p2.

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on regional communities.³⁵⁷ Rex currently has formal partnership agreements with 19 local governments that own regional airports from which it operates, including Albany and Esperance in WA.³⁵⁸ Rex has now introduced its community fare model, developed in WA, to some of its routes in the eastern states as part of its five-year agreements with local governments there.³⁵⁹

7.2 The Airlines' Own Initiatives For Residents

The obvious and easiest way to achieve airfare reductions is for airlines to change their current yield management systems and charge lower fares, especially for residents needing to book tickets to fly for urgent and compassionate reasons.

A retired travel agent told the Committee that airlines had previously had schemes, such as student fares, that offered significant discounts for residents in regional areas, "where you are moving a student at the end of the term from a boarding school here, back home and then back again. There was a substantial discount on those particular fares."³⁶⁰

The airlines also used to offer 'bereavement-type' fares:

...or urgent-travel fares, which were on application to the airline. The traveller then had to provide evidence of the reason for travel. When you have people up in Kununurra who needed to come down to Perth for urgent medical treatment or for medical treatment, they would produce all the necessary doctor's documentation and the fare was then organised directly with the airline.³⁶¹

A number of airlines operating in Western Australia have recently introduced discounted airfare initiatives for some regional communities. Four of these are outlined below.

Rex's 'community fare'

Regional Express (Rex) was founded in 2002 after the collapse of Ansett Airlines and operates to 59 regional destinations, mainly in eastern Australia.³⁶² Rex commenced its

357 Submission No. 57 from Regional Express, 28 July 2017, p4.

358 Regional Express Holdings Limited, *Clearer skies ahead- Annual Report*, 30 June 2017, p15. Available at: www.rex.com.au/AboutRex/InvestorRelations/lib/pdf/FY/AR_FY1617.pdf. Accessed on 26 October 2017.

359 Regional Express, *Broken Hill Community Takes Advantage Of Rex Community Fare*, 10 May 2017. Available at: www.rex.com.au/MediaAndPressClippings/MediaReleaseList.aspx?y=16_17. Accessed on 2 November 2017.

360 Mr Claude Scivolo, Retired Corporate Travel Manager, *Transcript of Evidence*, 1 November 2017, pp3-4.

361 Ibid, p4.

362 Submission No. 57 from Regional Express, 28 July 2017, p3.

WA operations under a Deed of Agreement with the Government on 28 February 2016 and operates 23 weekly return services to Albany and 18 weekly return services to Esperance.³⁶³

Rex's 'community fare' is available on both its Albany and Esperance routes and costs \$129 for a one-way ticket. This fare is available for flights booked more than 60 days in advance of departure, or within the last 24 hours before departure. In a similar way to the 'standby' fares previously offered in Australia by TAA and Ansett, if a passenger attempts to book a 'community fare' a day before their travel, they may not be successful in securing a seat.³⁶⁴

Rex told the Committee that this new fare, "[i]s the number one initiative that we have been undertaking to do on these routes and now accounts for 15% of all fares between Perth and these two ports."³⁶⁵ In Albany, about 12% of the 'community fares' are purchased more than 60 days from travel while the majority are purchased at the last moment.³⁶⁶ One of the main reasons that Rex is able to offer this low fare is its high load factor on the two regulated routes, which in the first six months of 2017 was 75.5%.³⁶⁷

The 'community fare' is offered over and above Rex's obligations under its Deed of Agreement for the regulated routes. DoT described Rex's new fare as innovative, and "[t]o discount fares 24 hours out is very unusual in an aviation context worldwide, let alone in Australia. It has been transparent ... I think the community has recognised that and there has been a positive response."³⁶⁸ DoT confirmed that it had "been front and centre in facilitating that agreement."³⁶⁹

The 'community fare' had originally been priced at \$170 one-way during Rex's early planning. It was able to reduce this figure by \$20 per ticket after entering into agreements with the regional local governments about their landing charges:

363 Ibid, p4.

364 Airline staff still fly on a 'standby' basis and may be offloaded for a paying passenger. www.afr.com/business/transport/aviation/come-fly-with-me-qantas-staff-travel-benefits-widened-20160624-gpqv1.

365 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, pp8-9.

366 Mr Andrew Sharpe, CEO, City of Albany, *Transcript of Evidence*, 29 August 2017, p4.

367 Submission No. 57 from Regional Express, 28 July 2017, p5.

368 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 1 November 2017, p9.

369 Ibid, p16.

Chapter 7

*Our first community fare [then] was roughly \$149. We then entered into a broad sort of growth agreement with Perth Airport and we committed to lowering it by another \$20 if we could achieve that.*³⁷⁰

The DoT stated that the arrangement represented “a very new thing for a council to say that it was going to change dramatically its fees and charges approach and sufficiently educate its councillors” and that the negotiations required quite a bit of work to convince local government councillors to assist with airport charges, “particularly in the case of Albany.”³⁷¹

Rex told the Committee that the ‘community fare’ worked on the regulated routes in WA, but it would not offer it on RPT routes where it was competing against other airlines as:

*There is a big risk in that environment and that is why we do not do community fares in Port Lincoln. If we do community fares in Port Lincoln, we would probably have our competitor following suit and we end up in a bit of a race to the bottom.*³⁷²

As was observed in section 3.2 above, the Committee did not receive any negative feedback with respect to Rex’s fares. There was little public outcry about airfares in Albany and Esperance, compared to other regional destinations visited by the Committee.

Skippers’ community ‘Skip-e-deals’

While the Rex ‘community fare’ is available for all of their passengers, Skippers Aviation offers a 25% reduction from its most expensive Y-class base fare, but it is only available for local residents of the 11 regional destinations it serves. This fare is called a ‘Skip-e-deal’. There are only a limited number of ‘Skip-e-deals’ tickets on each flight.³⁷³ Skippers said there had been a variable take-up of this offer:

Carnarvon uses them. The mining companies do not seem to use them too much. Wiluna tried to do a deal where they had a \$200 fare and

370 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p12.

371 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 1 November 2017, p16.

372 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p7.

373 Skippers Aviation, *Special Deals*, 2017. Available at: www.skippers.com.au/special-deals/. Accessed on 2 November 2017.

*they would give us \$50 back, so that would make it \$250, but no-one ever uses it.*³⁷⁴

Virgin Australia’s Resident Fare Scheme Trial

Virgin Australia’s network of both RPT and charter services in WA offers a total of 131 interstate services per week, and 91 intrastate services per week.³⁷⁵ Virgin Australia told the Committee that it had previously trialled a ‘resident fare’ in its regional WA ports for a period of twelve months between January 2014 to January 2015.³⁷⁶ This fare offered up to a 30% discount on the full return fare for up to six times a year. The fares were available for residents of regional communities through Virgin directly, or through local travel agents:

*There were discounts at levels below that as well, so, for example if you were a resident and you wanted to spend the weekend away, say, in Perth, there was a condition that you would be away for a Saturday night and you could use that fare in conjunction with other fares.*³⁷⁷

Virgin told the Committee that “the uptake [of the residents’ fare] was very, very low indeed.”³⁷⁸ It agreed to provide additional information on this trial after its hearing. Virgin subsequently provided the Committee with data on a ‘commercial-in-confidence’ nature. This data confirmed Virgin’s assertion. However, unlike the Qantas trial described below, this scheme offered residents cheaper fares on Virgin’s less-popular routes and not on its main resource-based routes.³⁷⁹

The Committee notes that a percentage discount from the ‘full-fare’ may still remain more expensive than other cheaper fare classes, made available at different points prior to departure.

The City of Kalgoorlie-Boulder informed the Committee that it had recently sought to engage with Virgin Australia on community fares, but had not held any discussions yet because Virgin “will not come to the table.”³⁸⁰

Qantas 12-Month Residents’ Discount Fare Trial

Qantas told the Committee that, “[w]ith regard to airfares, Qantas currently offers competitive lead-in airfares across its regional Western Australian network. Last week

374 Mr Stan Quinlivan, CEO, Skippers Aviation Pty Ltd, *Transcript of Evidence*, 18 September 2017, p6.

375 Submission No. 58 from Virgin Australia, 28 July 2017, p1.

376 Ms Jane McKeon, Group Executive, Government Relations, Virgin Australia, *Transcript of Evidence*, 11 September 2017, pp5-6.

377 Ibid, p6.

378 Ibid, p5.

379 The Committee has resolved to preserve the confidentiality requested by Virgin Australia.

380 Mr John Walker, CEO City of Kalgoorlie-Boulder, *Transcript of Evidence*, 31 August p.10

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for example, sale fares in regional WA started at \$119.”³⁸¹ Qantas gave evidence that despite these low airfares, it had conducted its own focus groups and had spoken to residents in WA mining towns, about the issue of the price of airfares:

*We have run focus groups in Mount Isa, Broome and Karratha. We have listened and we do understand concerns, which is why we made the announcement the week before last of this 12-month trial, which brings into effect a 30% discount at the very top end to residents, 10% at the bottom end—80% of our fares are sold in that bottom end. Two per cent get sold at the very top end to residents, and that is where the 30% discount applies.*³⁸²

This trial in WA is similar to a residents-only airfare QantasLink offered on seven routes in Western and Far North Queensland in 2008. For example, the residents-only fare between Horn Island and Cairns reduced the **lowest** fare by \$76 to \$99 (or a 43% decrease) while the residents-only fare between Weipa and Cairns, reducing the **lowest** fare by \$60 to \$89 (or a 40% decrease).³⁸³

The WA Qantas Residents’ Discount Fare initiative was announced on the 1st September 2017, the day after the Committee had held hearings and a public forum in Kalgoorlie. It allows a maximum of four return fares for personal travel from Broome, Kalgoorlie, Karratha, Paraburdoo, Port Hedland and Newman. The scheme is to operate from November 2017 (shortly before this Committee delivered its final report) and will apply for a 12-month trial period. Residents can book their fares either through a travel agent or online at the Qantas’ website.³⁸⁴

Qantas told the Committee that it already had support from the City of Kalgoorlie-Boulder “which will importantly contribute to additional discounts by waiving the resident’s costs of landing charges – other airports have so far remained silent on the initiative.”³⁸⁵ Qantas said “[w]e will work with the residents over the next 12 months to gauge how the initiative is working.”³⁸⁶

381 Mr Andrew David, CEO, Qantas Domestic, Qantas Airways, *Transcript of Evidence*, 11 September 2017, p2.

382 Ibid, p3.

383 Qantas, *QantasLink Awarded Air Service Contracts for Regional Queensland Services*, 28 January 2008. Available at: www.qantas.com/travel/airlines/media-releases/jan-2008/3715/global/en. Accessed on 10 November 2017.

384 Qantas Airways, *Qantas to Offer Discounts for Residents in Regional Western Australia*, 1 September 2017, p1. Available at: www.qantasnewsroom.com.au/media-releases/qantas-to-offer-discounts-for-residents-in-regional-western-australia. Accessed on 25 October 2017.

385 Mr Andrew Parker, Group Executive, Government, Industry and International Affairs, Qantas Domestic, Qantas Airways, *Transcript of Evidence*, 11 September 2017, p3.

386 Mr Andrew David, CEO, Qantas Domestic, Qantas Airways, *Transcript of Evidence*, 11 September 2017, p3.

DoT told the Committee that it is in regular communication with all airlines that operate in WA, especially with Qantas, which offers the largest number routes in WA. It discussed with Qantas “12 or 18 months ago” the idea of a ‘resident airfare’:

We looked at what options they could develop to address that. They came up with a range of things. Clearly, the work they did was not—that had been a work in progress; it was not something that was knocked up after the committee was announced or when the committee started its public hearings. ...Once they got close to the decision point of going forward, there was a range of engagement with us, talking about what they were looking at doing, why they were intending to go in certain directions in the weeks leading up to the public announcement.³⁸⁷

The Committee held a hearing with the City of Kalgoorlie-Boulder on the day before the Qantas trial was announced. It heard in closed session about the arrangement negotiated between the City and Qantas, and that the City would provide a monthly rebate to Qantas of the airport charges of \$25.95 per resident who uses the scheme. This is likely to cost the City about \$250,000 per annum as it is expected that 10,000 residents will use the discounted flights each year.³⁸⁸

At that stage, the City believed that the scheme was to be an ongoing one, and not a trial, as announced by Qantas the following day.³⁸⁹

The Committee subsequently wrote to the operators of the other five airports where the trial will operate. Three of these airports are privately operated and two (Karratha and Newman) are managed by local governments. All five replied that:

- No discussions had been held with Qantas before the Residents’ Discount Fare was announced;
- They had received a telephone call from Qantas on the 31 August 2017 outlining the proposal and a later email with a letter marked ‘confidential’ describing the scheme;
- They had been in regular contact with Qantas since the announcement attempting to clarify aspects of the proposed Resident Discount Fare, its application and administration;

387 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 1 November 2017, pp14-15.

388 Mr John Walker, CEO, City of Kalgoorlie–Boulder, *Transcript of Evidence, Closed Hearing*, 31 August 2017, p1. Publically disclosed with the permission of the witness.

389 Ibid.

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- None had agreed (at this point in time) to refund any charges proposed by Qantas in the proposal; and
- None had entered into any form of agreement to support the scheme.³⁹⁰

DoT also observed that it had been briefed by Qantas very close to the public announcement of the community fare, but that this had been preceded by engagement over 18 months on the need for Qantas to address the problem.³⁹¹ In response to the Qantas announcement about its trial, Virgin told the Committee:

*We have chosen not to respond [to the Qantas trial] ...Our advance purchase fares that we talked about on Kalgoorlie and Broome – are cheaper than the Qantas fare offerings, even after all of the discounts have been taken into account.*³⁹²

The Importance of Good Corporate Citizenship

It is completely legitimate that airlines earn a reasonable return. This sentiment was repeatedly stated in evidence, from a broad range of witnesses, and the Committee fully accepts this proposition.

There is also a strong case for enabling community access to reasonably priced ‘community fares’ for regional townships – and a particularly compelling case for significant fare reductions in compassionate cases.

The airline operators have all stated to the Committee that they take corporate social responsibility obligations seriously and are committed to working with the communities in which they operate. The Committee accepts that this is an accurate reflection of the major airlines’ intention.

As previously discussed, Qantas provided evidence to the Committee that urgent, ‘last minute’ travel constitutes approximately 2% of all tickets booked on regional routes. Where this last minute travel is for genuine compassionate reasons, the Committee considers that it would be wholly consistent with Good Corporate Citizenship for airlines to voluntarily offer access to Compassionate Fares – particularly on unregulated routes. Such action on the airline industry’s part would likely also significantly reduce community outrage.

390 Mr Simon Kot, Director Strategic Projects and Infrastructure, City of Karratha, Email, 5 October 2017, p1.

391 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, *Transcript of Evidence*, 1 November 2017, p15.

392 Ms Jane McKeon, Group Executive, Government Relations, Virgin Australia, *Transcript of Evidence*, 11 September 2017, p6.

Finding 29

The airline industry previously offered ‘compassionate’ fares to assist community members attempting to travel at times of great distress. If airlines were to proactively re-introduce these fares, this would be wholly consistent with good corporate citizenship and would likely assist to reduce community outrage.

Finding 30

Various airlines operating unregulated routes to regional destinations in Western Australia offer categories of discounted airfares for local residents. The discounts are frequently off the most expensive fare class and may therefore still represent a considerably more expensive fare than other non-resident fares offered into the market at different points in time.

Finding 31

Airlines operating in Western Australia adopt differing stakeholder engagement strategies. Community outrage is lower where airlines engage proactively with local communities and demonstrate responsiveness to local concerns.

Finding 32

Qantas’ introduction of its Residents’ Discount Fare is a welcome step. However, the Committee is concerned about the nature of the community engagement undertaken when introducing the fare; its ability to provide a long-term, sustainable solution for community access to reasonably priced fares; and whether these fares represent the best price that could be offered to community members travelling under ‘compassionate’ circumstances.

7.3 Providing More Information

The transparency of ticket prices, and how they change via the operation of each airline’s yield management system, was addressed in Chapter 2 above. A proposal for the State’s Department of Transport to build a FuelWatch-like portal of regional airfares to make it easier for residents to track price changes is made in Chapter 8. Currently each airline has a corporate web site that displays the cheapest fare for a number of fare classes for a period of five (Rex) to seven days (Qantas, Virgin and Skippers), which can be adjusted for the next period.

What is missing in this pricing jigsaw, especially for passengers requiring a last-minute fare, is the ability to see the different, especially cheaper fare classes, over a longer period and how they move as the date of departure approaches. A limited amount of additional information is available to travel agents, but not the public:

The only difference is that if you are going through your own PC, you would see ‘available’ and ‘not available’. What the agent would see is

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*the flight numbers for those days, the classes and the availability next to those classes, and it shows seven seats at any one time.*³⁹³

On its regulated routes, Rex stated that it is required, under its Deed of Agreement, to transparently report every single fare sold, but that it also proactively provides information over and above its licence requirements:

*I stand in front of all the regular users of the air service and report what our average ticket price is. That is not a hard and fast contractual requirement, what our average ticket price is; we actually included an indicative average ticket price as part of our tender process. But if the Department of Transport and the local community are not happy with the average ticket price that we are delivering, it can get to the point whereby the Department of Transport can say we no longer want Regional Express to operate that deed, and they can terminate the deed. There is a fair bit of incentive there for the airlines to do the right thing under that level of transparency.*³⁹⁴

Finding 33

Voluntary initiatives introduced by airlines to assist customers to understand airfare pricing dynamics would considerably reduce community outrage.

7.4 Growing The Tourism Sector- Growing The Pie

The Committee received many submissions outlining the impact that high airfares have had on the State's tourism industry. For example, the Shire of Broome submitted that the total number of overnight holiday visitors to Broome fell by 7% between 2011 and 2016, compared to a rise of 27% for WA as a whole.³⁹⁵

A number of stakeholders called for a review of how the tourism industry operates in the State, given the impact of the structural adjustment in the resource sector. There was general agreement that increasing and maintaining tourist numbers is vital for regional communities, and that increased demand for airfares by tourist visitations would put downward pressure on airfares. The Tourism Council WA stated that "[w]e certainly think the issue of airfares in general, and regional airfares in particular, is probably the most important issue affecting tourism in Western Australia."³⁹⁶

393 Mr Claude Scivolo, Retired Corporate Travel Manager, *Transcript of Evidence*, 1 November 2017, p7.

394 Mr Warwick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p8.

395 Submission No. 79A from the Shire of Broome, 15 September 2017, p6.

396 Mr Evan Hall, CEO, Tourism Council WA, *Transcript of Evidence*, 18 September 2017, p1.

Tourism WA oversees the State's tourism sector and stated in their submission:

*The agency's purpose is to promote and develop Western Australia's iconic tourism experiences. This is undertaken by marketing the State as a competitive tourism destination; developing major attractions and marketing major events; and supporting significant tourism infrastructure and development projects. ...Aviation is an integral part of the social and economic development of the State...*³⁹⁷

Tourism WA works closely with airport owners, airlines and other aviation partners. Its regional aviation focus is on the development of sustainable air services to grow leisure tourism. This leisure traffic exists on some of the regional routes, but not all.

*Much of the State's regional leisure visitation is self-drive, due to the combination of consumer travel preference, lack of affordability or accessibility (ie lack of intrastate connection, flights originating primarily from Perth, lack of fly/drive affordable options) and on-ground infrastructure including car hire, taxi service etc.*³⁹⁸

The Manager of the Habitat Resort Broome highlighted in his submission the competition faced by Broome's tourist industry from cheaper locations, such as Bali:

*One million people would fly from Perth to Bali in the current financial year. That is an incredible number especially when you consider the impacts if only a small percentage of that amount holidayed within the State. Broome needs to increase the amount of visitors by about 50,000 – 70,000 per year ...This is only 5-7% of the tourists visiting Bali from Perth.*³⁹⁹

In their submission, the Australian Hotels Association identified the importance of tourism to Western Australia:

*Tourism has been identified by Deloitte as one of the 'Fantastic Five' super-growth sectors that will drive prosperity into the future. Western Australia's Tourism 2020 strategy sets out a plan to capitalize on the industry's potential with stretch targets aimed at doubling the industry's economic contribution, measured through the growth of overnight expenditure, from \$6 billion to \$12 billion.*⁴⁰⁰

397 Submission No. 27 from Tourism WA, 27 July 2017, p1.

398 Ibid.

399 Submission No. 90 from Mr Michael Leake, Manager, Habitat Resort Broome, 31 July 2017, p5.

400 Submission No. 101 from the Australian Hotels Association WA, 9 August 2017, p2.

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One way to grow tourism would be to promote the diversity and unique natural attributes which the State's regions have to offer tourists, outside of the current three major tourist focuses (the South West, Monkey Mia and Broome). The Kimberley Development Commission gave an example of how smaller towns in the Kimberley region could develop their tourist sectors:

The sort of product that is available in the Kimberley stands apart as being quite unique. ... We do compete with other destinations. ...leisure tourism is not the biggest consumer of aviation services in the region. ...We think it has high growth potential. We would be supportive of all that the Shire has said preceding us and also all the work that the East Kimberley Marketing Group has done. We think there is high growth potential. That growth potential is limited by access and cost.⁴⁰¹

7.5 New Initiatives To Boost Tourism

Community Initiatives

Chapter Four provided an overview of the impact that high airfares were having on the growth of the regional tourism industry. The Committee received evidence regarding the degree to which local small businesses, tourism operators and local governments have innovated to attempt to expand their markets. They have attempted to engage with the airlines on these initiatives, with varying degrees of success.

In Broome, the Committee heard that the local industry operators had attempted to innovate and develop cheaper 'package holidays' to promote the uptake of travel to Broome. They originally explored chartering their own planes from Perth to Broome, to address issues around surge pricing during peak periods, which triggered Qantas to start negotiations with them, with the support of Tourism WA.⁴⁰²

The accommodation providers intended to underwrite a certain volume of seats, secure price certainty and then market holiday packages. The industry spent "months and months in negotiations with Qantas until the point that really what happened was it was not going to offer industry any extraordinary circumstances and it very quickly fizzled."⁴⁰³

401 Mr Jeff Gooding, CEO, Kimberley Development Commission, *Transcript of Evidence*, 21 August 2017, pp6-7.

402 Mr James Brown, Chair, Broome Tourism Leadership Group, *Transcript of Evidence*, 22 August 2017, p8.

403 Mr Peter Taylor, President, Broome Chamber of Commerce and Industry, *Transcript of Evidence*, 22 August 2017, p6.

The CEO of the Tourism Leadership Group in Broome outlined the process:

In essence, what we were looking for was an opportunity to buy block seats within the aircraft; it could have been 30 or 40 seats out of every aircraft that the industry underpinned at a wholesale rate that it was then able to take to market and package out with accommodation and try and market that.

We had in-principle support from some of the key accommodation providers, so we progressed that as well as we possibly could. However, over numerous meetings, the initial target and terms and conditions were slowly but surely eroded until the last offer presented by Qantas was less competitive than what they had currently offered us. ...We could have walked out of that room and actually got better terms and conditions elsewhere, so it was illogical.⁴⁰⁴

Qantas' approach to community engagement in Broome was described as, "an annual stakeholder meeting where they invite industry to sit around the table with them and talk about the year ahead. Virgin do not do that. We embrace the opportunity from Qantas, but really nothing ever comes out of it."⁴⁰⁵

In contrast, on the regulated Albany route, and as discussed above, the City of Albany worked collaboratively with Rex to reduce landing fees and devise a \$99 fare, associated with a two-night stay in the town, to promote tourism into the area, which in turn has enabled more affordable travel for the local community.

Finding 34

Collaborative initiatives between local businesses, councils and airlines would open up a range of new opportunities, expand the tourism market and overall passenger demand, increasing scale and potentially reducing airfares.

Low-Cost Carriers

The current *State Aviation Strategy* aims to encourage low-cost carriers (such as Tigerair and Jetstar) into regional WA, to boost both interstate and intrastate tourism and lower airfares. The Strategy claims that "[i]n Queensland, which is also a resource-based state, Jetstar flies a large number of intrastate routes. Airfares in Queensland are much lower than in WA."⁴⁰⁶

404 Mr James Brown, Chair, Broome Tourism Leadership Group, *Transcript of Evidence*, 22 August 2017, p8.

405 Ms Jael Napper, Chief Executive Officer, Broome Chamber of Commerce and Industry, *Transcript of Evidence*, 22 August 2017, p6.

406 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p12.

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Tourism WA agreed that:

*Our medium-term goal is to attract a low-cost carrier into Western Australia, operating multiple routes and with a specific focus on growing the leisure market through its lower fare structure and concentrated marketing activities.*⁴⁰⁷

Over the past two years, since the *State Aviation Strategy* was released, no new or low-cost carriers have commenced operations in WA, although Qantas told the Committee it was in “discussions with the Western Australian Government with regard to Jetstar operating into regional WA”.⁴⁰⁸ Qantas said there were economies of scale offered by Jetstar, and that in 2016-17 it had:

*...sold 37 million tickets and 24 million of those tickets were sold for less than \$100. Again, we are happy to work with [the Government] to see whether, interstate or intrastate, there are opportunities to use that brand, but it will not work in all markets.*⁴⁰⁹

The difficulty of attracting a low-cost airline servicing tourists to WA was outlined by the CEO of Broome International Airport. He told the Committee that low-cost carriers need to serve a population centre with a minimum population of over 100,000 people at both ends of the route, or an airport at each end servicing a million passengers a year.⁴¹⁰ There are no regional centres outside of Perth with populations in excess of 100,000 nor with airports serving a million passengers. The State’s largest regional centre (beside Bunbury) is resource-based Kalgoorlie-Boulder, with about 30,000 people.⁴¹¹ In 2016-17 Karratha was the busiest airport outside of Perth and it had serviced about 465,000 (mostly resource-based) passengers.⁴¹²

407 Ms Derryn Belford, Executive Director, Destination Development, Tourism WA, *Transcript of Evidence*, 6 September 2017, p2.

408 Mr Andrew David, CEO, Qantas Domestic, Qantas Airways, *Transcript of Evidence*, 11 September 2017, p2.

409 Ibid, p16.

410 Mr Paul McSweeney, CEO, Broome International Airport, *Transcript of Evidence*, 22 August 2017, p2.

411 Australian Bureau of Statistics, *2016 Census QuickStats*, 12 January 2017. Available at: www.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/LGA54280. Accessed on 2 November 2017.

412 Department of Infrastructure and Regional Development, *Aviation Statistics*, 17 February 2015. Available at: https://bitre.gov.au/publications/ongoing/airport_traffic_data.aspx. Accessed on 19 October 2017.

Finding 35

While three overseas airlines have recently announced new services to Perth⁴¹³, it seems unlikely in the near future that the State can attract a low-cost airline servicing tourists on regional routes.

Finding 36

The population, market size and current traffic to the State's main regional centres are the main factors inhibiting the development of new low-cost air services to regional WA.

The Development Of New Routes By Local Communities

The Committee received submissions and heard evidence from a number of regional communities that would like to see new routes introduced to their local airport, which could increase their tourist visitor numbers and increase the overall travel demand and potentially lower fares.

Kununurra – Melbourne

The Shire of Wyndham-East Kimberley outlined to the Committee their approach to improve tourist visitation numbers to the East Kimberley region. The Shire has invested \$200,000 of its own funds with a similar amount raised from local businesses, and will conduct a six-month trial commencing in 2018 of twice-weekly direct flights between Kununurra and Melbourne⁴¹⁴:

*We know that even a small increase will be significant for us in terms of potential economic benefit, to the point where council is now underwriting, ...to try to increase traffic direct out of the eastern states and into Kununurra... We are trying to prove up what we already know, which is that there is a significant tourism market for us in the eastern states, and in Melbourne in particular, and we believe that will extend to Sydney.*⁴¹⁵

Broome – Singapore

The Shire of Broome, on the other hand, has used \$100,000 of its own funds to explore the viability of flights between Broome and Singapore by SilkAir. The Shire said that:

Broome is closer to Asia than we are to Perth. If there was an opportunity to open that up, that would be a game changer, we believe. As an example, there was a movement to see whether we could not do

413 Mr Geoffrey Thomas, *The West Australian*, "Airlines beef up services to Perth", 28-29 October 2017, p47.

414 Submission No. 10 from the Shire of Wyndham-East Kimberley, 25 July 2017, p4.

415 Mr Carl Askew, CEO, Shire of Wyndham-East Kimberley, *Transcript of Evidence*, 21 August 2017, p2.

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*a trial of flights from Singapore into Broome. That has not quite happened this year. Hopefully, it will move next year.*⁴¹⁶

Karratha - Singapore

Similarly, the City of Karratha has used its own funds to run a public expression of interest and tender process to try to secure an airline to commence charter operations directly between Singapore and Karratha, on a weekly service. This route was chosen so as not to compete with Port Hedland Airport's weekly service to Bali.⁴¹⁷

The City of Karratha said that the proposed service was aimed at the outbound tourism market and also had a potential for an inbound tourism market, as well as supporting the business market. Prior to offering the tender, the City had been unable to convince an airline to establish a RPT service to Singapore:

*The advice from airlines directly was that they perceived there was risk in terms of its longevity so we started to focus on a charter operation ... It had strong support through our analysis with the local community and also with the regional community. ... We ran that process and were able to short-list a preferred company. We were able to negotiate with that company but, unfortunately, at the eleventh-hour, those negotiations concluded. We are now working with other airlines on a similar model.*⁴¹⁸

Both the Shire of Broome and the Karratha and Districts Chamber of Commerce and Industry support a proposal to allow foreign airlines to pick up domestic passengers from their airports, not only to encourage more tourists, but as a way of lowering regional airfares to capitals such as Perth.⁴¹⁹ This issue of cabotage is explored in more detail in Chapter 8.

Finding 37

Local communities have innovated to improve the attractiveness of their tourism product (with differing degrees of success) and have experienced varying levels of engagement with airlines.

416 Mr Sam Mastrolembo, CEO, Shire of Broome, *Transcript of Evidence*, 22 August 2017, p5.

417 Mr Simon Kot, Director, Strategic Projects and Infrastructure Services, City of Karratha, *Transcript of Evidence*, 23 August 2017, p4.

418 Ibid.

419 Mr Vaughan Corps, Vice-President, Karratha and Districts Chamber of Commerce and Industry, *Transcript of Evidence*, 23 August 2017, p11.

Chapter 8

Governments At All Levels Can Help Lower Airfares

“...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.”⁴²⁰

The Committee received a range of suggestions concerning actions that can be taken – at all levels of government – to assist to reduce the cost of regional airfares.

8.1 Local Governments Are Helping To Drive Change

Chapter 7 outlined local community initiatives to trial new flights and develop local tourism industries. The communities hope that these actions will increase passenger demand, flights and – hopefully – produce lower airfares. A number of regional airports owned by local governments have also supported initiatives that directly lower the airport fees paid by airlines.

Lower Landing Charges

As part of Qantas’ 12-month Residents’ Discount Fare trial, the City of Kalgoorlie-Boulder has agreed to rebate the \$25.95 per passenger landing fees for those passengers who use the fares each month. The City expects that approximately 10,000 fares will be purchased annually by residents using the scheme, making its contribution about \$250,000 per annum.⁴²¹ The City said that it tried to discuss similar proposals with Virgin Airways, but “[w]e have been totally ignored by Virgin. They have not even acknowledged the letter”.⁴²² On the other hand, they said Qantas had been very generous in initially meeting with the Mayor, and had subsequently arranged four conference meetings by telephone about the scheme.⁴²³

As discussed above in Chapter 6, the City of Albany supports Rex in lowering the cost of their flights in three ways. Firstly, it has contracted with Rex that it will limit landing charge increases to CPI over the next three years.⁴²⁴ Secondly, and even though the

420 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 9 August 2017, p4.

421 Mr John Walker, CEO, City of Kalgoorlie–Boulder, *Transcript of Evidence, Closed Hearing*, 31 August 2017, p1. Publically disclosed with the permission of the witness.

422 *Ibid*, p2.

423 Mr John Walker, CEO, City of Kalgoorlie–Boulder, *Transcript of Evidence*, 31 August 2017, p4.

424 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p3.

Chapter 8

City is making an accounting loss at its airport, it has agreed in its contract to fix Rex's total airport charges at their current level, even if passenger numbers exceed the current level of 50,000. This gives Rex an incentive to grow their passenger numbers as they will not pay any more than they are now paying.⁴²⁵ If the passenger numbers increase by 10% per annum, or about 5,000 passengers, then the City of Albany will forgo over \$300,000 in landing charges.⁴²⁶ This arrangement for capped landing charges has also been negotiated by Rex with the Shire of Esperance.⁴²⁷

Finally, the City of Albany is trying to grow its tourism market in the sector of tourists that flies to the Great Southern region. Of the 900,000 tourists visiting Albany each year, over 90% currently do so by car.⁴²⁸ The City is supporting a \$99 one-way airfare from Perth, as long as a person purchases two nights' accommodation in Albany and books through a travel agent. The City will not charge Rex any landing fees for these passengers.⁴²⁹

The City of Geraldton has frozen its airport passenger service fees and landing fees for the past three years.⁴³⁰ It defended its approach to fees in light of the criticism from airlines, especially Qantas, which:

*...were being very, very aggressive with regional airports all over Australia, ...threatening to withdraw services if we did not reduce fees and all of this sort of stuff—Qantas was kind enough subsequent to that to apologise.*⁴³¹

The City believes its airport is critical to not just Geraldton but to the wider region, and that it has been:

*...progressive in developing the airport. We have been progressive in planning it. We have been progressive in terms of protecting aviation services into Geraldton, and that serves also with Geraldton as a hub, the smaller charter carriers that operate out of Geraldton and do business throughout the Midwest. We have two resident at Geraldton: we have Geraldton Air Charter and Shine Aviation.*⁴³²

425 Councillor Dennis Wellington, Mayor, City of Albany, *Transcript of Evidence*, 29 August 2017, p2.

426 Mr Andrew Sharpe, CEO, City of Albany, Email, 22 September 2017.

427 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p3.

428 Councillor Dennis Wellington, Mayor, City of Albany, *Transcript of Evidence*, 29 August 2017, p3.

429 *Ibid*, p2.

430 Mr Bob Davis, Director, Corporate and Commercial Services, City of Greater Geraldton, *Transcript of Evidence*, 18 September 2017, p2.

431 *Ibid*, p3.

432 *Ibid*, p2.

While not freezing charges, the Shire of Wyndham–East Kimberley is “very aware of the cost and is trying to keep things as low as possible”, and will look at a rise in landing charges for the Kununurra Airport of just 1%, which “is probably as low as we can go, I would imagine, in terms of fees and charges, and that applies to rates as well.”⁴³³

The Board of the privately-owned Port Hedland International Airport, although not consulted by Qantas before the launch of its resident’s airfare scheme, has subsequently agreed to match the discounts offered by Qantas, and will discount its landing charges for local residents using the scheme.⁴³⁴

At its November council meeting, the City of Karratha voted to reduce its airport charges to match the Qantas discount for those residents using the trial scheme.⁴³⁵

Finding 38

Many regional local governments have taken direct action to reduce or freeze airport passenger and landing charges, to decrease fares and stimulate higher passenger numbers.

Collaboration And Information Sharing

The Committee was presented with evidence that Pilbara airport operators (the City of Karratha, the Shire of East Pilbara, and AMP Capital as owners of Port Hedland Airport) take a very proactive approach to share operational information and improve efficiency. While each airport is owned and operated independently, “there are regular communications that occur and forums that occur between the airport management groups. We have good evidence where we found some efficiencies.”⁴³⁶

The airport owners had also previously collectively tendered for security equipment and for services and had rolled them out regionally, as well as negotiating contracts on a regional basis. Unlike ticket prices controlled by an airline’s yield management system, the airport management costs are “fairly transparent”:

...people are well aware of what is happening within each other’s backyard. There is sharing of information around compliance. There is sharing of information around standards of infrastructure and support that is provided on various projects. ...particularly within the Pilbara,

433 Mr Carl Askew, CEO, Shire of Wyndham–East Kimberley, *Transcript of Evidence*, 21 August 2017, p13.

434 Mr Rod Evans, General Manager, PHIA Operating Company Pty Ltd, Letter, 12 October 2017, p3.

435 *The West Australian*, “Karratha council set to vote on airport fee reduction”, 3 November 2017. Available at: <https://thewest.com.au/news/north-west-telegraph/hedland-agrees-to-airport-cost-relief-ng-b88640006z>. Accessed on 3 November 2017.

436 Mr Simon Kot, Director, Strategic Projects and Infrastructure Services, City of Karratha, *Transcript of Evidence*, 23 August 2017, p12.

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*there is a good level of dialogue and support that is afforded between each.*⁴³⁷

Finding 39

Airport operators in the Pilbara have developed operational efficiencies and cost savings by sharing knowledge and collaborating on tenders.

The model used by the Pilbara airport operators is a good one for operators in other regions, such as the Kimberley, to consider adopting. Such collaboration and information sharing could be assisted by either the Department of Transport or industry organisations, such as the Australian Airports Association.

8.2 State Government Initiatives To Address Market Issues

As outlined in Chapter 2, the State Government has three primary functions with respect to the intra-state aviation industry: policy making, licencing and regulation. There is scope in all of these activity areas for the State Government to influence regional airfare pricing outcomes.

At the highest level, the State Government should clearly articulate its transport policy objectives as they impact the regional aviation sector and ensure that its agencies are equipped, both in terms of resourcing and information, to develop specific programs and initiatives.

Based on the evidence presented to it, the Committee has also identified a range of specific initiatives – particularly with respect to the licencing and regulatory functions – that Government should consider as part of its policy development process, that could place downward pressure on prices.

8.3 Transport Policy

Updating the *State Aviation Strategy* and Enhancing DoT's Policy Function

This Report has discussed above the considerable changes in the intrastate aviation market since the structural adjustment in 2012-13 in the R&E sector. It has also observed that much of the information upon which the 2015 *State Aviation Strategy* was based, is now outdated.

DoT observed that the contraction in the resources sector had changed the environment for aviation in WA, and that it might:

...need to go back to that exercise across-government because it is not just a Department of Transport issue, as others have acknowledged,

437 Ibid.

*including the other Departments ... we need to take this holistic view of the complex system...*⁴³⁸

In its final hearing before the Committee, DoT agreed that the economic environment has changed:

*...from when we were doing the State Aviation Strategy – it came out several years ago, but the work had preceded that by one or two years – yes, the world has changed... We acknowledge that the circumstances change, the Government has to respond to that.*⁴³⁹

In addition to the changes in the market, there has also been a change in Government, which may hold a different set of policy priorities and objectives to the previous administration. DoT acknowledged this issue and stated:

*...we had a previous Government up until 11 March. That Government said it wanted the Department of Transport to take a light-handed approach to regulation... we cannot take a contrary position to a previous Government.*⁴⁴⁰

In light of the changed circumstances, the Committee considers it is timely for the Government to initiate a review of the *State Aviation Strategy*, to ensure that the approaches of the various government departments are consistent with changed market conditions and the policy priorities of the new Government. A clear enunciation of the Government's priorities would also provide clarity and certainty for industry.

As in other Australian jurisdictions, the State's Department of Transport (DoT) is the lead agency providing advice to the Government on all forms of public transport, not just the aviation sector. The Committee was told that DoT's aviation policy section was "a good team" but "tiny", with a staff of just three.⁴⁴¹ According to the City of Greater Geraldton, it had a good relationship with the DoT aviation section:

*They are very helpful and very supportive of us and they are prepared to talk about all sorts of things, but my view would be, in the current downsizing of the State public sector, to protect that team.*⁴⁴²

438 Mr Brett Hughes, Executive Director, Transport Strategy and Reform, Department of Transport, *Transcript of Evidence*, 1 November 2017, p6.

439 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, *Transcript of Evidence*, 1 November 2017, pp4-5.

440 Ibid, p6.

441 Mr Bob Davis, Director, Corporate and Commercial Services, City of Greater Geraldton, *Transcript of Evidence*, 18 September 2017, p12.

442 Ibid.

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However, the Tourism Council was more critical of this section and thought it did not have “the policy grunt or the understanding of how aviation works”:

There needs to be a skill upgrade, I would say, and a recognition from the Department of Transport that they have a degree of responsibility, in the same way that they would certainly assume they have got a degree of responsibility over roads and rail. I do not know why it suddenly disappears when it comes to aviation, particularly in a State of our geographic nature.⁴⁴³

DoT said that its Aviation Policy and Programs branch “currently operates with 6.4 Full-Time Equivalent (FTE) staff” but had been larger for specific tasks, for example “during the *State Aviation Strategy* development an additional three FTEs (including full-time consultants) worked in the section.”⁴⁴⁴ It acknowledged that any government decision that it take a “more active role in the marketplace” may have “resourcing implications”:

As the team currently stands, we would need more capacity in the team if we were to take on a greater market focus in terms of particularly trying to glean and process lots of information.⁴⁴⁵

Recommendation 1

The Minister for Transport initiate an immediate review to update the *State Aviation Strategy*, to reflect current market conditions and the Government’s intrastate aviation policy objectives. The review should consider the adequacy of the Department of Transport’s resources, in light of any proposed changes to its policies or functions.

At a Government-wide level, the Committee received evidence to suggest that, following the introduction of the newly-elected McGowan Government’s ‘Machinery of Government’ changes, there is scope to improve collaboration between the three primary agencies now responsible for major aspects of the State’s aviation policy: DoT, Department of Primary Industries and Regional Development (PIRD) and Tourism WA.

PIRD informed the Committee that, under the previous Liberal-National Government, “cross agency work was done for the *State Aviation Strategy*”⁴⁴⁶, but that although the new agencies do still work together, collaboration currently occurs mainly on a case-by-case basis on route tender proposals and “in response to particular critical places or

443 Mr Evan Hall, CEO, Tourism Council WA, *Transcript of Evidence*, 18 September 2017, p11.

444 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, Letter, 14 November 2017, pp1-2.

445 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, *Transcript of Evidence*, 1 November 2017, p5.

446 Mr Ralph Addis, Acting Director General, Department of Primary Industries and Regional Development, *Transcript of Evidence*, 16 August 2017, p6.

flare-ups.”⁴⁴⁷ The Acting Director General said PIRD’s interaction with Transport was good “but broadly ad hoc ... That is probably an opportunity for improvement.”⁴⁴⁸

DoT agreed that they worked more closely with Tourism WA than PIRD.⁴⁴⁹ Tourism WA said it worked with DoT mainly on tourism routes:

*With [PIRD], we have been working previously on the development of a regional tourism framework to try and look at what are the things that drive tourism in certain regions, and what are the enablers, because in different regions, it will be different. So, while that was not specifically related to aviation, it is about trying to understand what we need in each of those regions.*⁴⁵⁰

The Kimberley Development Commission suggested that the three agencies working together in “an integrated approach” was “a key starting work”, particularly in ensuring better data collection.⁴⁵¹

When questioned by the Committee on this issue, all three agencies agreed that there was a need for them to work together in a more purposeful way, such as on an interdepartmental working group.⁴⁵² DoT responded that it:

*...understands the benefits of a more formal structure in relation to the collaboration with key stakeholders including other State Government agencies and will consider and assess the role of such a working group as part of the response to the outcome to the Inquiry.*⁴⁵³

Finding 40

The Departments of Transport, Primary Industries and Regional Development and Tourism WA currently work together in an *ad hoc* fashion on specific aviation-related tasks.

447 Ibid, p4.

448 Ibid, p2.

449 Mr Brett Hughes, Executive Director, Transport Strategy and Reform, Department of Transport, *Transcript of Evidence*, 9 August 2017, p12.

450 Ms Derryn Belford, Executive Director, Destination Development, Tourism WA, *Transcript of Evidence*, 6 September 2017, p3.

451 Mr Jeff Gooding, CEO, Kimberley Development Commission, *Transcript of Evidence*, 21 August 2017, p6.

452 Mr Ralph Addis, Acting Director General, Department of Primary Industries and Regional Development, *Transcript of Evidence*, 16 August 2017, p4.

453 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, Letter, 14 November 2017, p3.

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Recommendation 2

The Ministers for Transport, Tourism, and Regional Development establish an interdepartmental working group by 1 February 2018 to assist the review of the *State Aviation Strategy* and undertake a more coordinated approach to aviation policy implementation.

The Committee heard that in a previous State Government, Premier Gallop chaired an Aviation Ministerial Council which consisted of senior ministers of government who would jointly decide matters in relation to the aviation sector.⁴⁵⁴

Recommendation 3

The Premier consider re-establishing an Aviation Ministerial Council, to provide oversight for the recommended review of the *State Aviation Strategy* and ensure an ongoing whole-of-Government approach to the implementation State aviation policy.

8.4 Licensing

Sound policy depends on good quality information. As noted above, the aviation industry is renowned for its remarkable complexity and secrecy. Access to information can therefore be highly problematic.

In addition to a number of powers regarding aircraft operations (which are not within the scope of this Inquiry), the State's licencing powers provide a mechanism through which it can access the information required to undertake a more forensic approach to policy formation and the exercise of ministerial powers (particularly with respect to route regulation, which is discussed in more detail below). Enhanced transparency and operational information may also, in itself, work to place downward pressure on prices.

Improving Aviation Data Collection

After its initial hearing with DoT, the Committee requested answers to questions on notice on a range of matters with respect to intrastate aviation and was surprised to learn that the Department was unable to provide important, and basic, information about the industry:

*DoT currently does not have any information regarding how many West Australians are employed in the State's aviation industry or what proportion of Gross State Product it represents.*⁴⁵⁵

454 Mr Shayne Flanagan, CEO, Goldfields–Esperance Development Commission, *Transcript of Evidence*, 31 August 2017, p8.

455 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, Letter, 24 August 2017.

A number of witnesses provided evidence with respect to DoT's inability to gather the relevant and detailed information needed to develop future aviation policy, particularly in deciding on questions of route regulation. For example, the Goldfields–Esperance Development Commission said it “would be helpful if the Department of Transport actually utilised the mechanisms available to it to at least secure the empirical data related to fares, scheduling and on-time performance” as the Commission was presently having to rely on anecdotal information for this data.⁴⁵⁶

In its submission to this Inquiry, the Department of Transport acknowledged this weakness when it submitted that “DoT 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.”⁴⁵⁷ DoT recommended that the Committee:

*...seek detailed and specific information from airlines about the key factors that drive airfares within the regions. Furthermore, DoT recommends that the Committee seek independent technical advice to provide guidance to the Committee.*⁴⁵⁸

In its 2015-16 Annual Report, DoT said it had begun collecting further data to improve its forecasting for intrastate passenger numbers with the assistance of Federal agencies, the Bureau of Infrastructure and Department of Transport and Regional Economics; Perth Airport; and the Chamber of Minerals and Energy.⁴⁵⁹

The City of Greater Geraldton stated that another source of this type of information were the local governments operating regional airports. These airports already collect such data as they have a commercial relationship with the airlines and issue them monthly with invoices for fees. The City offered:

Now, the smarter thing, I think, for DoT would have been, “Could we share the data?” We give it to BITRE anyway—... So the information is available; it is just that nobody currently is obliged to give it to DOT...⁴⁶⁰

Recommendation 4

The Department of Transport develop memorandums of understanding by July 2018 with regional airport operators that service unregulated RPT flights for the provision of

456 Mr Shayne Flanagan, CEO, Goldfields–Esperance Development Commission, *Transcript of Evidence*, 31 August 2017, p3.

457 Submission No. 94 from the Department of Transport, 28 July 2017, p3.

458 Ibid.

459 Department of Transport, *Annual report 2016*, 18 October 2017, p46. Available at: [www.transport.wa.gov.au/mediaFiles/about-us/AR P Annual Report 2015 16 full report revised 29Sept.pdf](http://www.transport.wa.gov.au/mediaFiles/about-us/AR_P_Annual_Report_2015_16_full_report_revised_29Sept.pdf). Accessed on 3 November 2017.

460 Mr Bob Davis, Director, Corporate and Commercial Services, City of Greater Geraldton, *Transcript of Evidence*, 18 September 2017, p14.

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relevant flight and passenger data. As a minimum, the operators should provide the data that they disclose to the Bureau of Infrastructure, Transport and Regional Economics.

The Committee considers it reasonable to expect that the primary agency charged with developing and implementing aviation policy would both collect and analyse information with respect to the aviation industry, as part of its core function of providing advice to Government. As one witness observed, “if within that Department [DoT] there is a deeper understanding of how airlines work, then you can really start to get a picture of what is real and what is not.”⁴⁶¹

In addition to the information that the State Government could access in conjunction with local governments, the Committee notes that there are a broad range of powers available to DoT to compel the production of certain classes of information, under the licensing provisions of the *Transport Coordination Act 1966*.

Licensing Conditions and Information Disclosure Differs Markedly Between Regulated and Unregulated Routes

DoT confirmed to the Committee 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.”⁴⁶² Section 47 of the *Transport Coordination Act 1966* allows the Minister to attach conditions to licences:

47. Minister may attach conditions to licences

(1) The Minister may, in his discretion, attach to an aircraft licence all or any of the following conditions, namely, a condition that —

(a) the aircraft be operated only upon specified routes or in a specified area; and

(b) specified timetables be observed; and

(c) specified fares and freight rates be charged; and

(d) prescribed records and statistics be kept and be supplied to the Director General,

461 Ms Johanna Ramsay, Independent Aviation Consultant, *Transcript of Evidence*, 13 September 2017, p6.

462 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 9 August 2017, p4.

and may attach such other conditions as he thinks fit to impose, in the public interest.⁴⁶³ (emphasis added)

At its final hearing, the DoT provided supplementary information to the Committee clarifying the classes of information under the *Transport Co-ordination Regulations 1985* that are designated as ‘prescribed records’ (see Appendix Seven):

- *For each calendar month, each route flown by the aircraft in the month and each class of fare (as determined by the licensee) sold in the month- the number of seats sold in the class, the average price and (where relevant) the average discount (as a percentage) applied to calculate the price;*
- *For each calendar month and each route flown by the aircraft in the month- the total net passenger revenue from, and the total operating costs of, operating the aircraft;*
- *For each calendar month and each destination to which the aircraft carried freight in the month- the weight of freight carried and the net freight revenue from carrying that freight; [and]*
- *For each calendar month and each route flown by the aircraft in the month- the number of flying hours.*⁴⁶⁴

Licences for regulated RPT routes impose significant reporting requirements. Under its Deed of Agreement for the 5-year licence to operate the Albany and Esperance RPT routes, Rex is required to regularly provide fare data to DoT, which is then made public every six months at community meetings held in Albany and Esperance. Rex said that the measures within the current regulatory process meant it:

*...actually transparently reports every single fare sold to the Department of Transport. The average ticket price is monitored. Our fare structure is part of the deed. We can only increase our fares by CPI under that deed of agreement.*⁴⁶⁵

Rex stated, however, that it did not consider its reporting obligations to be onerous, nor did it incur high compliance costs, as it already gathered data for its own management purposes.⁴⁶⁶ It said in its experience:

463 AustLII, *Transport Co-Ordination Act 1966 - Sect 47*, nd. Available at: www.austlii.edu.au/cgi-bin/viewdoc/au/legis/wa/consol_act/tca1966278/s47.html . Accessed on 31 October 2017.

464 Submission No. 94A from Department of Transport, 1 November 2017, pp1-2.

465 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p8.

466 Ibid.

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...the current regulatory process is efficient and does not impose a heavy cost burden. However, the regulatory policies may need to be reviewed if the State is serious about achieving lower regional airfares.⁴⁶⁷

Qantas and Virgin's current licences on unregulated RPT routes in WA do not generally require either company to report their passenger loads and fare classes. The Department of Transport (DoT) explained that it had:

...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—...—have competition, and the policy position of the State Aviation Strategy is that market forces will prevail. ...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.⁴⁶⁸

On the Perth-Exmouth (Learmonth) route, where Qantas provides a monopoly RPT service, DoT has placed a requirement to provide fare data:

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 ... 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.⁴⁶⁹

The Acting Director General of PIRD agreed that facilitating greater transparency of "what is happening, how prices are being set, what prices are set, what volumes are being carried" would assist Government policy making.⁴⁷⁰

467 Submission No. 57 from Regional Express, 28 July 2017, p9.

468 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, *Transcript of Evidence*, 9 August 2017, p5.

469 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 9 August 2017, p4.

470 Mr Ralph Addis, Acting Director General, Department of Primary Industries and Regional Development, *Transcript of Evidence*, 16 August 2017, p2.

Similarly, DoT stated that the acquisition of better quality data is “essential to understand what is going on in those routes. You cannot give good policy guidance to the Government of the day without that fundamental data. That is step one.”⁴⁷¹

The Committee has observed in its Chapter 7 findings, that it is open to industry to be more transparent and engaged with regional communities, and that a more proactive approach to stakeholder engagement and a clear explanation of flight costs and fare components may considerably reduce community outrage. DoT noted:

*It is interesting to say, but the average airfare with Rex is not lower than it was with Virgin, but what it has done, I think, is just to be really upfront about what the story is as far as it, as a company, is concerned. It needs to make a commercial return, yes, but it also wants to be upfront with the community that it is trying to serve... I think the community has recognised that and there has been a positive response to that.*⁴⁷²

Commercial Confidentiality Considerations in the Unregulated Environment

The Committee understands and is sympathetic to both Qantas and Virgins’ concerns with respect to preserving the confidentiality of commercially sensitive information. Qantas stated that “there are ACCC obligations, in terms of what we disclose. There are also competitive pressures, and there are also commercial arrangements in place we have with corporate customers.”⁴⁷³

In terms of its ability to be transparent with the Committee in this inquiry, Qantas cited “there are obviously both competitive and regulatory rules that limit how much we can be transparent.”⁴⁷⁴ The Committee offered to receive commercially sensitive information on a confidential basis, and received a limited amount of additional information from both major airlines.

It is not appropriate in the unregulated environment (where competitive pressures theoretically apply at all times) for airlines to publicly reveal all commercially sensitive information concerning price structures. However, as noted in Chapter 7, there is considerable scope for more proactive community engagement. There is also scope for industry to be more open and transparent with Government. Industry could provide information to Government on a confidential basis, enabling Government to assess market performance, based on the best possible information.

471 Mr Peter Ryan, Director, Aviation, Department of Transport *Transcript of Evidence*, 1 November 2017, p9.

472 Ibid.

473 Mr Andrew Parker, Group Executive, Government, industry and International Affairs, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p4.

474 Ibid, p5.

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In these circumstances, where ‘confidentiality’ clauses apply in commercial instruments, it is open to airlines to seek to negotiate the disclosure of confidential information with their counterparties. Most commercial instruments also provide specific exemptions for the provision of commercially sensitive information to government agencies, where such disclosure is mandatory, or provide ‘change in law’ mechanisms to reflect changes in regulatory obligations around information disclosure.

Finding 41

Subject to regulatory or contractual constraints, airlines could provide classes of information under the *Transport Coordination Act 1966* and *Transport Coordination Regulations 1985* to Government on a voluntary and confidential basis.

Broadening Information Disclosure Obligations On Unregulated Routes

If the voluntary disclosure of information is not adopted by airlines, or other regulatory or contractual constraints prevent voluntary action, a more interventionist approach from Government may be warranted, to enable Government to strengthen the exercise of its policy function. Moreover, compelling the disclosure of information may, in itself, place downward pressure on the price of airfares.

A number of witnesses observed to the Committee that the mere fact of disclosure places a natural restraint on gouging or unfair pricing. In the context of DoT’s ability to require information disclosure from Qantas on the Exmouth route, DoT observed that “with that transparency Qantas is very mindful of what it does in terms of pricing.”⁴⁷⁵ Similarly, the Broome Chamber of Commerce observed that, despite its default position being that competition rather than regulation will provide the best outcomes for prices, “sunlight is often the best disinfectant and certainly with public gaze in these areas and government gaze in these areas, it can produce change.”⁴⁷⁶

A requirement to provide greater information on unregulated routes represents an intermediate step between the current ‘light handed’ policy approach, and full route re-regulation (outlined below). It provides the State Government with the ability to conduct its policy function more effectively, observe the operation of the aviation market, consider whether the market is operating to produce fair pricing outcomes on regional unregulated routes and consider whether more interventionist market steps are warranted.

Based on the evidence presented to this inquiry, the Committee is unable to find that market forces are placing sufficient pressure on unregulated route prices. The

475 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 9 August 2017, p4.

476 Mr Peter Taylor, President, Broome Chamber of Commerce and Industry, *Transcript of Evidence*, 22 August 2017, p6.

possibility of market failure or anti-competitive conduct is of significant concern to the Committee. It is important that the State Government secure access to sufficient information to enable it to form a view – and on an ongoing basis, rather than at a particular point in time.

Recommendation 5

The Minister for Transport utilise existing licensing powers under the *Transport Coordination Act 1966* and *Transport Co-Ordination Regulations 1985* to require that airlines operating on unregulated RPT routes provide the ‘prescribed records’ listed in Appendix Seven to the Department of Transport. Strict confidentiality protocols need to be observed around commercially sensitive information.

Recommendation 6

The Minister for Transport direct the Department of Transport to produce a biannual report assessing prevailing market dynamics and airfares on WA’s unregulated RPT routes.

8.5 Is There A Case For More Route Regulation?

As outlined in Appendix Eight, increased reporting requirements represent a mid-point on a continuum of potential policy interventions the State Government might take. Route regulation represents a greater form of market intervention than currently operates.

Better quality information would enable the State Government to assess whether circumstances justify a more interventionist approach on particular routes. As outlined in Chapter 2, ‘regulation’ in the WA aviation context entails the award of a monopoly right over a route for a specific period of time, after a competitive tender process. Whereas competitive market forces are assumed to apply at all times in an unregulated environment, on a regulated route, market forces operate during the periodic tender process, with ongoing oversight by DoT through the course of the licence period.

Varying Views On Whether The State Government Should Regulate Additional Routes

The Committee received conflicting opinions regarding the benefits of regulating air services on specific RPT routes. DoT agreed that the State Government does already 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

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*the community and hence some control of the marketplace in terms of who is providing those services.*⁴⁷⁷

The previous Government's position was to seek to deregulate RPT routes "wherever feasible as a means of stimulating competition, increasing choice, introducing more flights, and lowering airfares."⁴⁷⁸ Given the structural adjustment in the R&E sector since 2012-13, it is highly questionable whether these goals have materialised.

The City of Kalgoorlie-Boulder generally supports the policy of deregulating routes:

It is our philosophic view that doing business this way is generally a better way of doing things, however, the City's faith is tested when the airlines operate as they do.

*In the absence of action by the airlines to change and curtail the excessive pricing policies they practise, the City would join the many calls that exist to place some regulation into the market on routes and pricing.*⁴⁷⁹

The differences in opinion on the question of regulating air routes is exemplified by the City of Kalgoorlie-Boulder. While the CEO supported deregulation and "that the market should determine [prices]. We believe in supply and demand"⁴⁸⁰, the Mayor thought that all air routes should be put to tender, such as the City does with its other services, and resource companies do for their FIFO tickets:

*...everything in local government—every new purchase, every new contract—we do it through tender. We believe that that structure and that system gives the ratepayers the best value for money. A regulated [air] route would give that. You seek tenders. All the airlines would then tender for a one-year, two, three or four-year contract and you would pick the best tender. ...The trouble is that we do have thin markets and it is really only a duopoly. We see with just Coles and Woolworths, duopolies do not really work that well.*⁴⁸¹

In their submission, Qantas argued that there was no need for further regulation of routes in WA:

477 Mr Steve Bayer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, *Transcript of Evidence*, 9 August 2017, p1.

478 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p79.

479 Submission No. 119 from the City of Kalgoorlie-Boulder, 31 August 2017, p10.

480 Mr John Walker, CEO, City of Kalgoorlie-Boulder, *Transcript of Evidence*, 31 August 2017, p6.

481 Councillor John Bowler, Mayor, City of Kalgoorlie-Boulder, *Transcript of Evidence*, 31 August 2017, p6.

*The current State regulatory regime is not an inhibitor to regional Western Australia and the Group recommends no additional regulation be put in place due to the unintended consequences this may have on the West Australian regional economy.*⁴⁸²

The previous State Government did not specify the set number of passengers on a route that would trigger regulation, but the *State Aviation Strategy* stated that a route will be regulated if it was “too thin to sustain direct competition.”⁴⁸³ The State Government’s *Review of Regulated Regular Public Transport Air Routes in Western Australia* in 2015 did note, however, that “[e]xperience in other States across Australia indicates that routes with fewer than 100,000 passengers per year are unlikely to have two operators.”⁴⁸⁴

Broome International Airport gave evidence that “[t]he models have typically shown that any route that carries more than 50,000 [passengers] does not suffer regulation well.”⁴⁸⁵ However, Regional Express (Rex) told the Committee that the State Government could lower airfares by 25% by regulating routes of up to 200,000 passengers per annum:

*...and placing these routes out to tender under a similar process that we undertook for the Esperance and Albany routes. We estimate that airfares could fall by around 25% if it was tendered out correctly with the right safeguards in place.*⁴⁸⁶

Skippers Aviation told the Committee it supported a proposal to put to tender in one package all of the State’s currently regulated routes, as it would reduce its costs:

*...you can fix costs and you get utilisation out of your planes. ... Ours would be lucky to do 700 or 800 hours a year, so you are not getting the utilisation but you have still got the same time maintenance. So, more utilisation makes it easier.*⁴⁸⁷

The Parliamentary National Party of WA (PNP) claimed the current ‘piecemeal’ approach to regulation has failed:

482 Submission No. 95 from Qantas Airways Ltd, 31 July 2017, p7.

483 Department of Transport, *Western Australian State Aviation Strategy*, Perth, Western Australia, 2015, p60.

484 Department of Transport, *Review of Regulated Regular Public Transport Air Routes in Western Australia- Final Public Report*, Perth, Western Australia, 2015, p28.

485 Mr Paul McSweeney, CEO, Broome International Airport, *Transcript of Evidence*, 22 August 2017, p6.

486 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p2.

487 Mr Stan Quinlivan, CEO, Skippers Aviation Pty Ltd, *Transcript of Evidence*, 18 September 2017, p4.

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There are not enough travellers on RPT routes to enable proper competition, and separating the State into different routes means airlines cannot subsidise more expensive routes with more profitable routes, leading to higher operating costs and therefore higher fares.⁴⁸⁸

The PNP told the Committee that the State Government:

...should accept that air services are essential services and it should manage access to those routes in the same way as other essential services. Do not leave it to the airlines, unchecked, to decide what we will pay and when we will fly... that it is very important to the economic prosperity and social wellbeing in regional WA that Government must take a tough approach to regulate those services.⁴⁸⁹

The PNP recommended in its submission that the State Government should offer by tender a whole-of-State regulated monopoly RPT route package (including airports) through a competitive process with specific service and price requirements. The contract for the successful tenderer should be reviewed every five years.⁴⁹⁰ In its hearing, however, the PNP slightly modified its position and stated that it supported a thorough examination, based on detailed economic analysis, of various forms of regulatory intervention, to produce recommendations as to the appropriate form in the WA market.⁴⁹¹

Finding 42

There are differing views on whether the State Government should re-regulate additional RPT air routes in Western Australia, and at what level of passenger numbers regulation should apply.

University Study Confirms Current Regulated RPT Airfares In WA Are Lower And Less Volatile Than Unregulated Ones

Qantas was concerned that the unhappiness with the current level of airfares in regional WA might lead the State Government to propose to regulate additional routes. It claimed, “[w]hat concerns us if we were to see regulation—what we would worry about—is that our fares for residents could well go up in a regulated market.”⁴⁹²

488 Submission No. 96 from the Parliamentary National Party of Australia (WA), 1 August 2017, p6.

489 Mr Vincent Catania MLA, Member for North West Central, *Transcript of Evidence*, 13 September 2017, p2.

490 Submission No. 96 from the Parliamentary National Party of Australia (WA), 1 August 2017, p6.

491 Ms Johanna Ramsay, Independent Aviation Consultant, *Transcript of Evidence*, 13 September 2017, pp11-12.

492 Mr Andrew David, CEO, Qantas Domestic, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p7.

Associate Professor Jianhong Xia from Curtin University presented data prepared especially for this Inquiry which showed that regulated routes in WA have lower airfares than unregulated routes.⁴⁹³ Associate Professor Xia explained that for her study:

*...we used publicly available real-time flight data to build gravity models and we applied statistical analysis to forecast total available RPT—regular public transport—air passenger seats and airfares between airports in regional WA.*⁴⁹⁴

Associate Professor Xia stated that the study confirms that “competition alone does not necessarily result in lower airfares” and that tourist airfares “were relatively cheaper than those flight routes mainly for mining and business purposes.”⁴⁹⁵

The Major Airlines Are Opposed To Regulation Of Air Routes, But Recent Experience In WA Confirms Lower Fares When A Route Is Regulated

Both major airlines are opposed to any further regulation of air routes in WA. Virgin gave evidence that “where the characteristics of the route are such that it can support more than one operator, then we do think that a competitive market delivers the best outcomes not just for travellers, but taxpayers as well.”⁴⁹⁶ Qantas claimed that “[i]n a regulated market, what is most likely to happen is that you will reduce the range [of fares], but the average fare will go up for residents.”⁴⁹⁷

The actual experience in WA in the recent re-regulation of the Albany and Esperance routes to allow Rex to fly them is that the minimum fare has reduced. Rex told the Committee that their fares were 25% lower than those previously offered by Virgin, who had previously flown that route.⁴⁹⁸ The City of Albany confirmed that the lowest fare when Rex took over the route was \$172 one-way to Perth, while the Rex ‘community fare’ is now offered for a price of \$129 one-way (a 28% reduction).⁴⁹⁹

493 Submission No. 45 from Associate Professor Jianhong Xia, Department of Spatial Sciences, Curtin University, 27 July 2017, p1.

494 Associate Professor Jianhong Xia, Department of Spatial Sciences, Curtin University, *Transcript of Evidence*, 6 September 2017, p1.

495 Ibid.

496 Ms Jane McKeon, Group Executive, Government Relations, Virgin Australia, *Transcript of Evidence*, 11 September 2017, p8.

497 Mr Andrew David, CEO, Qantas Domestic, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p13.

498 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p8.

499 Councillor Dennis Wellington, Mayor, City of Albany, *Transcript of Evidence*, 29 August 2017, p3.

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Finding 43

The drop in fares for the regulated Rex RPT routes to Albany and Esperance support the academic evidence provided to the Committee that regulated routes in WA have lower and less volatile airfares than unregulated routes.

In its submission, Rex claimed that “competition in regional aviation can be particularly detrimental for all the smaller routes of less than 100,000 passengers a year.”⁵⁰⁰ Rex compared its WA regulated routes with the Adelaide to Port Lincoln route. Rex originally were the sole operator on this route and carried 175,000 people per annum on 10 return flights a day prior to QantasLink entering the route. It is now “struggling to achieve a 50% load factor and Qantas and Rex [were] having to push up the average ticket price to try and make those services viable.”⁵⁰¹

Rex claims that the airfare to Port Lincoln is now 30% higher than it was before QantasLink entered the route and this experience confirmed its view that:

*Competition does not ultimately result in lowering prices as Rex’s vast experience has shown and in fact can destroy efficiencies and result in higher airfares and lower profits (or bigger losses) for all concerned.*⁵⁰²

The Committee notes that, of all the unregulated destinations in WA, a disproportionately large volume of submissions to this inquiry came from Kununurra. Sentiment at the Committee’s public forum was negative and considerable unease was presented in public hearings. The unregulated RPT routes to Kununurra carry about 75,000 passengers per annum.⁵⁰³ Over 45,000 of these passengers are carried by Airnorth on its flights between Darwin and Broome.⁵⁰⁴ This means that Virgin Australia’s direct flight between Perth-Kununurra carries less than 30,000 passengers per annum.

DoT confirmed that the following seven routes have less than 100,000 passengers per year but are not currently regulated:

1. Broome – Fitzroy Crossing – Halls Creek
2. Kununurra – Halls Creek
3. Broome – Kununurra
4. Kununurra – Kalumburu

500 Submission No. 57 from Regional Express, 28 July 2017, p6.

501 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p7.

502 Submission No. 57 from Regional Express, 28 July 2017, p6.

503 Submission No. 94 from Department of Transport, 28 July 2017, pp30-31.

504 Mr Paul Bawden, East Kimberley Regional Airport Manager, Email, 1 October 2017, p1.

5. Perth – Ravensthorpe
6. Perth – Kununurra
7. Perth – Onslow

DoT said that these routes are not regulated in a manner consistent with the other regulated air routes as they “have not been regulated historically, the Government has not looked to add them to the list of regulated air routes even though they are under 100,000 passengers per annum.”⁵⁰⁵

The Committee has stated in Finding 22 that the evidence to this Inquiry suggests that market forces may not operate to place sufficient downward pressure on airfares to some unregulated regional destinations. As discussed above, decisions with respect to route regulation should be based on the best available information, and this has perhaps also not been provided to the Committee. This information would, however, be available to the Department of Transport, if Recommendation 5 is implemented.

Given the complex policy environment, extensive economic analysis and community consultation required to determine appropriate forms of market intervention, the Committee considers that it cannot recommend the re-regulation of particular routes. However, given recent changes in market conditions, the degree of community outrage in certain regional centres and its recommendation that Government undertake a review of the *State Aviation Strategy*, the Committee considers that it would be appropriate for the Government to consider whether any existing WA routes should be re-regulated, as part of the development of its future aviation policy priorities.

The Committee notes that it may be prudent to observe the market’s response to the introduction of stronger information reporting obligations, prior to initiating a review of route regulation.

Recommendation 7

The Minister for Transport direct the Department of Transport to undertake a discrete, detailed economic analysis and community consultation to determine whether any additional RPT routes in WA should be subject to regulation, with priority placed on the Perth-Kununurra service.

8.6 Tendering On Regulated Routes And Market Engagement

As outlined previously, on regulated routes market forces are applied at the point of competition for a tender. The Committee received evidence both to the conduct of the tender process and the ‘packaging up’ of discreet regional routes.

505 Ibid.

Chapter 8

The Existing Route Tender Process

DoT use a tender process to regulate RPT air routes with a low patronage, but which are critical for regional communities. DoT provided the Committee with information on the current tender process, which is included in Appendix Six. At the conclusion of a tender, it awards a monopoly right to a single airline to operate on a regulated route, usually for a period of up to five years.⁵⁰⁶ DoT said it collaborates with the PIRD during tender processes “in order to understand and include and respond positively to the different needs of different sectors in the market.”⁵⁰⁷

The Committee received little evidence about the efficiency of the current tender process. DoT could not discuss with the Committee the current processes it was conducting for the Carnarvon–Monkey Mia and the northern Goldfields regulated routes.⁵⁰⁸

DoT confirmed that as part of its tender process, airlines are required to indicate a range of information in respect of their proposed airfares. This information includes “a maximum airfare. It also includes an indicative average airfare and what we call ‘buckets’, if you like, of different airfares.”⁵⁰⁹

The Department said the current process was flexible as it allowed airlines to propose a non-conforming tender.⁵¹⁰ Once the tender has been awarded, it monitors the actual airfares charged to make sure they match those proposed in the tender.⁵¹¹

The CEO of Skippers Aviation told the Committee that he thought the process “is run correctly”, but:

*...I do not know who is on the committee that assesses it. I would expect them to be someone with some aviation knowledge and knowledge of aircraft and costs of aircraft and stuff like that. I do not think that could have been in place. That is my view of it.*⁵¹²

506 Mr Peter Ryan, Director, Aviation, Policy, Planning and Investment, Department of Transport, *Transcript of Evidence*, 9 August 2017, p3.

507 Mr Brett Hughes, Executive Director, Transport Strategy and Reform, Department of Transport, *Transcript of Evidence*, 9 August 2017, p12.

508 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, *Transcript of Evidence*, 9 August 2017, p2.

509 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 9 August 2017, p3.

510 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, *Transcript of Evidence*, 9 August 2017, p9.

511 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 9 August 2017, p3.

512 Mr Stan Quinlivan, CEO, Skippers Aviation Pty Ltd, *Transcript of Evidence*, 18 September 2017, p5.

Skippers Aviation participated in the tenders for the Albany and Esperance regulated routes, but was not successful for either. DoT provided Skippers with the reasons why they had been unsuccessful, some of which Skippers found confusing:

Part of the criteria is you get so many points for this, that and the other. I did not tell them what the captain did, what the first officer did, what the cabin crew did and how many toilets are on the plane. My view was I thought the committee assessing these things would have an idea of what an aircraft looked like and what sort of aircraft [it was].⁵¹³

The issues raised with the Committee by witnesses mainly related to the pre-tender process. Rex thought the competitive tender submission process:

...it puts a call out to the marketplace to put your best foot forward. Even under a single operator like Rex in Albany and Esperance, we are able to do some things because we know what the market size is, we know what our frequency is...⁵¹⁴

Rex, however, told the Committee it had been difficult for them to talk to the City of Albany and the Shire of Esperance about their airport charges before the tenders closed, as “[t]hey are more likely to say, ‘These are our airport charges; you either put in a tender or you don’t.’”⁵¹⁵

On the other hand, the Shire of Esperance was unhappy it had not been consulted or involved in the tender process for their route:

We were basically told, “This is the airline that is coming to Esperance. You need to now work with them in regards to your airport fees.” I suppose that put the Shire a little bit offside initially, because how do people in Perth determine what the service is required for in Esperance.⁵¹⁶

DoT countered this criticism by referring to the process in 2015 when all of the State’s regulated routes had been put out to tender. It said it used the Community Consultation Groups (CCG) that were operating on each route before 2015 “to set out with them what the key criteria for the air routes were intended to be” in the tender document. The CCGs included the key representative organisations from each town, such as the local council, the chamber of commerce, local tourism groups, health

513 Ibid.

514 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p3.

515 Ibid, p13.

516 Mr Matthew Scott, CEO, Shire of Esperance, *Transcript of Evidence*, 30 August 2017, p5.

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organisations and Development Commissions. Its approach in communicating with the CCGs was:

We were, I think, quite upfront with saying to the community, “Look, you obviously want the best outcome for your community, we want the best outcome for your community, part of getting that best outcome is designing the tender process appropriately.”⁵¹⁷

In terms of the post-tender process, Rex is happy with the transparency arrangements in the Deed of Agreement in regard to the fares it has received and its load factors over the previous reporting period. It said that these requirements weren’t onerous and there were not high costs of compliance, as this was data it gathered for its own management purposes anyway.⁵¹⁸ It was also the type of data it provides to the Queensland Government for the five regulated routes it operates there:

We felt that it was a fairly simple reporting structure and a fairly practical regime to work within under the licensing arrangements. We simply report all our reporting to the Department of Transport once a year. ...That data is just forwarded to the Department of Transport within 10 days of the end of the month.⁵¹⁹

Finding 44

There is a difference of view between some local councils and the Department of Transport as to the level of consultation undertaken in the current tender process for regulated routes.

Recommendation 8

The Department of Transport review its current tender design process for regulated RPT routes. The review should consult with the market regarding alternative packaging arrangements to optimise service efficiencies for ‘like’ routes.

8.7 Combining Regional Routes: Reintroducing A ‘Milk Run’

Beyond the conduct of tender processes, the Committee also explored with a number of witnesses whether there was scope for the re-introduction of a regulated coastal ‘milk run’.

A ‘milk run’ service previously operated up the coast of Western Australia, servicing a number of regional communities. The City of Greater Geraldton explained the

517 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 1 November 2017, p18.

518 Mr Warrick Lodge, General Manager, Network Strategy and Sales, Regional Express, *Transcript of Evidence*, 13 September 2017, p8.

519 Ibid.

advantages of the previous ‘milk run’ operated by SkyWest, “Carnarvon and Shark Bay and all those little places were subsidised by the services that went through Geraldton and the Pilbara ports. Meekatharra and Wiluna had servicing with larger aircraft.”⁵²⁰

The reasons why the ‘milk run’ did not continue included that the route to Geraldton was deregulated and the Commonwealth Government had introduced mandatory security screening for the jets servicing Geraldton, hence increasing the costs to passengers.⁵²¹

The City of Greater Geraldton submitted that when current licences for regulated routes next expire, “wider opportunities for network development and multi-leg intraregional services should be explored by the State, inviting competitive bids from the regional carriers.”⁵²²

The Shire of Ashburton told the Committee about a specific proposal they considered for a new ‘milk-run’ route:

*We recently considered a proposition by Aviair on behalf of a number of local governments, not just in the Pilbara, but linking the Gascoyne and Kimberley. The Council are considering whether they can work with Aviair as one operator only to provide a re-continuation of what you might class as the ‘milk run’ up the State from Carnarvon to Learmonth to Onslow to Paraburdoo to Exmouth to Broome to Kununurra.*⁵²³

The Shire could not divulge to the Committee the exact amount the council was requested to provide, but said that it was about \$300,000 per year, “in the order of \$250,000 per annum for a set term to try to get the service operating— ... plus reduced or waived landing fees”.⁵²⁴ At this stage the Shire was not supportive of the proposal because at ticket prices of about \$450 per passenger it was of the view that it “would not be viable in the long term with the subsidy providing that indicative level of fare.”⁵²⁵

The Town of Port Hedland observed that the previous Government’s 2015 *Review of Regulated Regular Public Transport Air Routes in Western Australia* had only considered existing routes, and had not considered whether there was a ‘public interest’ in establishing new inter-regional routes.⁵²⁶ Moreover, the Town was critical of the lack of

520 Mr Bob Davis, Director, Corporate and Commercial Services, City of Greater Geraldton, *Transcript of Evidence*, 18 September 2017, p4.

521 Ibid, p10.

522 Submission No. 3 from the City of Greater Geraldton, 10 July 2017, p13.

523 Mr Dale Stewart, Acting CEO, Shire of Ashburton, *Transcript of Evidence*, 11 September 2017, p2.

524 Ibid, p5.

525 Ibid, p6.

526 Mr Owen Hightower, Representative, Town of Port Hedland, *Transcript of Evidence*, 23 August 2017, p7.

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a process through which the viability of a route could be ascertained or the market tested:

*What is the framework for the State Government to consider establishing new regulated routes in the public interest? How does a community organisation or how does a business...go to the State Government and say "we think there is a potential market; it is not quite there, but there is an option to work with the government to create new inter-regional regulated routes that could enhance productivity."*⁵²⁷

The Town considered that a 'milk run' might facilitate improved access to the health and education services throughout the region, and suggested that the State and/or Federal Governments could support or underwrite such a service.⁵²⁸ It also noted the recent interest Aviair has expressed in a milk run regional service and also noted in its submission that the Federal Government had established the Airservices Australia *Enroute Charges Rebate Scheme*, with the objective to:

*...provide regional and remote communities with access to essential air services that can in turn connect these smaller communities with the rest of Australia. The scheme supports regional commercial airlines operating low-volume and new routes to remote communities; as well as aeromedical providers. The [Federal] Government's policy for aviation encourages ... the expansion of the current network by giving impetus for operators to test whether a new route can be commercially viable in time.*⁵²⁹

The Committee considers that, given recent developments in the State aviation market and the interest from some destinations in potential participation, the State Government should consider the reintroduction of a coastal 'milk run' as part of its broader review of the *State Aviation Strategy*.

Recommendation 9

As part of the review of the *State Aviation Strategy*, the Department of Transport engage with industry and local communities to examine the market opportunities for additional inter-regional routes within Western Australia.

8.8 Other Policy Initiatives

Successive WA Governments have typically regulated routes with 'thin' loads serving small communities. The next section of this Chapter examines various viewpoints as to

527 Ibid.

528 Ibid, p8.

529 Submission No. 117 from the Town of Port Hedland, 15 September 2017, p4.

when routes should be subsidised. On some routes, loads may be so low that there is a need for the State Government to subsidise the route to ensure the survival of the RPT service.

As an example of other governments subsidising airfares, section 8.10 below provides an outline of the Queensland Government's \$10 million *Attracting Aviation Investment Fund* and its recent decision to allocate an additional \$2 million to expand the *Local Fare Scheme* on a trial basis to allow flights in far northern Queensland to Doomadgee, Mornington Island and Weipa.⁵³⁰

Traditionally, Western Australia has not subsidised regional RPT routes, especially to the level that Queensland has undertaken. The State Government currently subsidises only one RPT route, the Halls Creek-Kununurra route, on a trial basis. Under the trial, Aviair Pty Ltd provides three return air services per week with a 9-seater aircraft. The Commonwealth Government also provides a separate subsidy for this route. Aviair commenced RPT operations on this route on 1 July 2016, and the trial was recently extended until 30 June 2018. The State Government's subsidy in 2016-17 for this route was \$433,550 (ex GST).⁵³¹

Recommendation 10

As part of the review of the *State Aviation Strategy*, the Department of Transport consider whether any current RPT routes require subsidisation to secure their viability.

Online Solutions To Make Regional Airfares More Transparent

The Department of Primary Industries and Regional Development (PIRD) told the Committee that the State's FuelWatch process might be a useful model for improving airfare transparency, as its aim was to reduce petrol prices by increasing information about the prices offered by individual petrol stations.⁵³²

The FuelWatch process was established in 2001 to assist WA drivers understand the weekly petrol price cycle, which can see prices increase by 30% within 24 hours. FuelWatch requires petrol stations to report their prices for the following day by 2pm each day. It now collects data from the metropolitan area and 52 regional locations.

530 Hon J.A Trad, Deputy Premier, Minister for Transport and Minister for Infrastructure and Planning, Queensland, Assembly, *Parliamentary Debates* (Hansard), 19 July 2017, p45. Available at: www.parliament.qld.gov.au/documents/hansard/2017/2017_07_19_EstimatesIPC.pdf. Accessed on 31 October 2017.

531 Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, Letter, 24 August 2017.

532 Mr Martin Clifford, Manager, Policy and Strategy, Department of Primary Industries and Regional Development, *Transcript of Evidence*, 16 August 2017, p3.

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The prices are aggregated and published on the FuelWatch web site, distributed to social media platforms and aired on TV stations.⁵³³

The Broome Chamber of Commerce and Industry made a suggestion for a similar new app that would collect the cheapest airfares offered by airlines and publish the data by route in a similar fashion to the Skyscanner web site.⁵³⁴ The Chamber's CEO offered a personal example of where this would have been useful:

*You can get the \$200 airfares, but good luck if you can find them; it is like looking for a needle in a haystack. An example of that is when I saw that Qantas was on sale—great, I was going to go home to Brisbane; ...—but I could not find those [particular] fares.*⁵³⁵

The usefulness of such an app to improve the transparency of airfares displayed on airlines' web sites was also suggested by the Broome Tourism Leadership Group. Both the Qantas and Virgin web sites offer comparative fares for a period of seven days around the departure date, but presently the consumer:

*...has to wade through a lot of information to try to find out what the reality of prices to the destination of Broome are, ... Regularly, you would not be able to see past the point of where the airfare drops off. If Broome and other destinations were able to establish some type of flight scanner ... that was able to easily portray that information to our database and to our market...*⁵³⁶

WALGA also supported such a system, "our members are saying to us that they need some kind of a FuelWatch-type model, consumer protection-type model, which is really more about information and transparency than anything else."⁵³⁷

Recommendation 11

The Department of Transport report to the Minister of Transport on the viability and utility of providing a web-based tool for regional airfares similar to FuelWatch.

533 Department of Mines, Industry Regulation and Safety, *Background to FuelWatch*, 2011. Available at: fuelwatch.wa.gov.au/fuelwatch/pages/public/contentholder.jsp?key=background.html. Accessed on 10 October 2017.

534 Skyscanner Ltd, *Skyscanner*, 2002-2017. Available at: skyscanner.com.au/. Accessed on 11 October 2017.

535 Ms Jael Napper, CEO, Broome Chamber of Commerce and Industry, *Transcript of Evidence*, 22 August 2017, p3.

536 Mr James Brown, Chair, Broome Tourism Leadership Group, *Transcript of Evidence*, 22 August 2017, p4.

537 Mr Ian Duncan, Executive Manager, Infrastructure, Western Australian Local Government Association, *Transcript of Evidence*, 18 September 2017, p5.

Can Government Leverage Its Purchasing Power?

The Committee was told on a number of occasions that the Government might be able to lower airfares for public servants by purchasing fares in a coordinated way:

It strikes me that Government must procure a very large share of air services in the key regional centres. We do not, ...use that in a particularly purposeful way. I do not know how we might do that, but that is certainly worth exploring. I would be surprised if Government's share of some of those routes is not 30 to 40%.⁵³⁸

The Department of Finance confirmed that it has a Common Use Arrangement (CUA) for travel by public servants. The use of the CUA is mandatory for domestic travel by Government agencies, but is not for Government Trading Enterprises (GTEs), although GTEs can access it if they choose to. Under the CUA, agencies are required to book domestic travel through a specified contractor which is then required to provide regular data to the Department.⁵³⁹

The Department said it:

...regularly negotiates discounts with the major airlines to leverage aggregated expenditure on travel across government. These discounts vary according to the fare type chosen by agencies and range from [8]% to 34%. In 2016, discounts negotiated with Qantas and Virgin Australia realised savings of \$3.8 million for intrastate, national and international travel booked under the CUA...⁵⁴⁰

A Premier's Circular was issued in 2016 which sets out the *Guidelines for Official Air Travel by Ministers, Parliamentary Secretaries and Government Officers*. The Guidelines require agencies to ensure the most economical travel arrangements possible and apply the principle of 'Best Fare of the Day', provided that it also meets the business requirements of the traveller.⁵⁴¹

The data provided by the CUA contractor to the Department doesn't include charter flights nor the number of passengers on each flight. However, the Department was able to provide the Committee with the total fare expense for each agency and GTE for the period 1 July 2016 to 30 June 2017. The total expense for this period was \$30.5 million and the 10 agencies with the highest fare expense for this period are shown in Table 8.1 below.

538 Mr Ralph Addis, Acting Director General, Department of Primary Industries and Regional Development, *Transcript of Evidence*, 16 August 2017, p3.

539 Submission No. 122 from the Department of Finance, 1 November 2017, p1.

540 Ibid, p2.

541 Ibid, p1.

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Table 8.1- Airfare expense for State agencies and GTEs- 2016-17⁵⁴²

Agency/GTE	Airfare expense (\$)
Department of Health	13,883,623
Department of Education - Head Office	2,988,131
Water Corporation	2,001,249
Department for Child Protection and Family Support	1,399,854
Western Australia Police Force	1,113,626
Department of Corrective Services	808,596
South Metropolitan TAFE	673, 737
Department of Housing	620,028
Department of the Attorney General	617,973
Department of Mines and Petroleum	546,111

The Department of Finance also provided the top five regional route destinations for each State agency for travel from Perth for 2016-17. This confirms that these agencies, in the main, travel to the larger regional centres of Broome, Kalgoorlie, Karratha, Port Hedland, Albany and Kununurra.⁵⁴³

Finding 45

The Government has procedures in place to use its purchasing power to produce savings from its annual budget of over \$30 million in airfares for State agencies and Government Trading Enterprises.

The data above confirms that the Department of Health is by far the largest user of air travel. In addition to these Departmental flights, the WA Country Health Service (WACHS) manages the Patient Assisted Travel Scheme (PATS). The WACHS budget for this scheme in 2017-18 is \$32.9 million to assist 36,505 patients.⁵⁴⁴ The cost for airfares in 2016-17 was \$14.9 million.⁵⁴⁵

In their submission, DoT said that in 2013, “in the case of Albany, air travel for medical purposes represents 14.4% of all trips. High airfares can therefore impact on the capacity of community members to access medical services in Perth.”⁵⁴⁶

The Committee requested data from WACHS on the use of PATS across the State. WACHS provided annual data for flights and the cost of flights made to over 37 communities for the past four years. The cost of the 40,092 flights in 2016-17 was

542 Ibid, Attachment 1.

543 Ibid, Attachment 2.

544 Government of Western Australia, *Summary Of State Government Social Concessions*, nd, p283.

Available at: <http://static.ourstatebudget.wa.gov.au/17-18/2017-18-wa-state-budget-bp3.pdf>.

Accessed on 13 November 2017.

545 Dr Neal Fong, Board Chair, WA Country Health Services, Letter, 23 November 2017.

546 Submission No. 94 from the Department of Transport, 28 July 2017, p16.

\$14.9 million compared to \$14.7 million for 40,128 flights in 2013-14.⁵⁴⁷ The breakdown of the 2016-17 flights by route type is shown in Table 8.2. About 80% of the flights are on unregulated RPT routes.

Table 8.3 outlines the number of flights and airfare costs for the top ten routes for 2016-17 and compares them to the number of flights to these destinations in 2013-14.

Table 8.2- PATS flights by route type- 2016-17⁵⁴⁸

Route type	Total cost of fares	Proportion of costs
Unregulated RPT routes	\$11,705,020	78.8%
Regulated RPT routes	\$1,950,589	13.1%
Charter flights	\$617,197	4.1%
Interstate flights	\$91,431	0.6%
Other flights	\$494,408	3.3%

Table 8.3- Top 10 destinations for PATS flights - 2016-17 and 2013-14⁵⁴⁹

Destination	No. of flights - 2016-17	Cost of 2016-17 flights	No. of flights - 2013-14
Broome	8,113	\$3,226,758	5,791
Karratha	7,783	\$2,621,744	7,963
Port Hedland	5,301	\$1,833,150	5,161
Learmonth/Exmouth [#]	2,306	\$529,534	1,753
Newman	2,111	\$696,572	2,215
Kununurra	2,063	\$1,405,896	2,005
Paraburdoo	2,048	\$680,912	2,043
Albany [#]	1,952	\$522,071	1,354
Geraldton	1,855	\$630,597	2,043
Kalgoorlie	1,481	\$590,858	2,711

[#]Regulated RPT route.

Recommendation 12

As part of the review of the *State Aviation Strategy*, the Department of Transport consider opportunities to leverage the State's purchasing power to encourage initiatives such as compassionate and/or community airfares for residents.

Limiting Airstrips Near Existing RPT Airports

Chapter Five above outlined the problems existing at some RPT airports, such as Karratha, where resource companies have built their own airstrips close to existing RPT airports. This reduces the number of passengers using the RPT airport. The reduced

547 Dr Neal Fong, Board Chair, WA Country Health Services, Letter, 23 November 2017.

548 Ibid.

549 Ibid.

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number of passengers using the airport means that the airport's fees and charges are then higher for the remaining flights.

DoT has reported that it had initiated a project with the Department of Mines, Industry Regulation and Safety (MIRS) that has led MIRS to now include a step in its Mining Licence Application requiring applicants to notify it and the Commonwealth whenever the construction of a new airstrip is proposed at a mine site.⁵⁵⁰

These airstrips are often approved as part of a State Agreement for a new mine, and the Agreements take precedence over DoT's regulatory powers. The Minister for Mines and Petroleum, and not the Minister for Transport, approves proposals for new mining airstrips.⁵⁵¹

Recommendation 13

All proposals for new mining airstrips within 100km of existing RPT airports to be considered at Cabinet level and be accompanied by a recommendation from the Aviation Ministerial Council.

Tourism Initiatives

A number of initiatives were suggested with respect to the tourism industry, some of which were beyond the scope of this current inquiry. The Committee notes the volume of information provided by a range of tourism organisations, acknowledges the efforts of regional communities to stimulate growth in their own markets, and agrees that Tourism WA can play a vital role to promote collaboration between local communities, tourism providers and the airlines, particularly with respect to tourism packaging. It also agrees that initiatives to focus on route development and targeted investments into regional destinations are likely to grow the tourism industry, increase the scale of the regional airfare market and thereby place downward pressure on price.

Finding 46

Growth in the State's tourism industry will increase the scale of the regional airfare market, thereby placing downward pressure on airfares to regional destinations.

8.9 The Federal Government Also Has A (Smaller) Role

As noted in Chapter 2, the Commonwealth maintains responsibility for the majority of aviation-related matters in Australia, particularly safety. However, there are very few

550 Department of Transport, *Annual report 2016*, 18 October 2017, p21. Available at: www.transport.wa.gov.au/mediaFiles/about-us/AR_P_Annual_Report_2015_16_full_report_revised_29Sept.pdf. Accessed on 3 November 2017.

551 Mr Peter Ryan, Director, Aviation, Department of Transport, *Transcript of Evidence*, 1 November 2017, p17.

mechanisms that the Australian Government can implement to lower actual airfares in regional WA, as the Federal Department of Infrastructure and Regional Development confirmed in its submission:

...the Australian Government does not regulate domestic airline routes. Airlines in Australia are privately owned and operated, and commercial decisions, including decisions about which routes to fly and what to charge, are operational matters for airlines.⁵⁵²

Since the reintroduction in 2014 of the Airservices Australia *Enroute Charges Payment Scheme*, the Federal Government has supported regional commercial air operators to provide low-volume, or new routes, to small and remote communities. The Scheme provides financial assistance to regional airlines operating RPT services in small aircraft weighing no more than 15,000kg on routes that have been “shown to have an economic and/or social impact on the community.”⁵⁵³

The final level of financial assistance paid depends on an airline’s claims and the number of eligible sectors they’ve actually flown.⁵⁵⁴ In WA, a total of just \$36,000 per annum has been provided to the following routes:

- Perth to Shark Bay;
- Shark Bay to Carnarvon;
- Perth to Onslow;
- Perth to Wiluna;
- Perth to Meekatharra;
- Perth to Laverton;
- Perth to Leonora;
- Laverton to Leonora;
- Perth to Mount Magnet; and
- Mount Magnet to Meekatharra.

⁵⁵⁵

Section 5.4 described the campaign by the Pilbara Regional Councils to have the Federal Government limit the FBT exemptions that resource companies use to claim their FIFO airfares as a tax deduction. The Committee has separately noted in section 6.4 the negative impact that Federal Government’s security screening requirements have on the cost of regional airfares.

⁵⁵² Submission No. 120 from the Department of Infrastructure and Regional Development, 29 September 2017, p3.

⁵⁵³ Department of Infrastructure and Regional Development, *The Airservices Australia Enroute Charges Payment Scheme*, 24 April, 2017. Available at: https://infrastructure.gov.au/aviation/regional/payment_scheme/index.aspx. Accessed on 13 November 2017.

⁵⁵⁴ Submission No. 120 from the Department of Infrastructure and Regional Development, 29 September 2017, p4.

⁵⁵⁵ Ibid.

Chapter 8

Removing Cabotage Restrictions For Northern Air Routes

Several witnesses and submissions to the Inquiry suggested that the Federal Government should remove existing air cabotage restrictions on international flights to Broome and Karratha, to boost their tourism industries.

Cabotage is the right for foreign carriers to operate on domestic routes. It is one of the International Civil Aviation Organization's nine 'Freedoms of the Air'⁵⁵⁶ and this barrier to foreign carriers carrying domestic passengers in Australia is controlled by the Commonwealth. It is a right that "is rarely granted or exchanged between countries."⁵⁵⁷

The Harper *Competition Policy Review* in March 2015 saw "considerable benefits flowing from removing air cabotage restrictions for remote and poorly served domestic routes and regards the current blanket air cabotage restrictions on foreign-flagged carriers as inefficient."⁵⁵⁸ It noted that air cabotage restrictions in Australia are stricter than those applied to shipping, where generally foreign-flagged ships can apply for permits to engage in coastal shipping in Australia when there is no Australian-flagged vessel to undertake the task.⁵⁵⁹

The Harper Review quoted a submission from Lateral Economics that said "[b]anning foreign [air] carriers everywhere [in Australia] is a blunt instrument for assisting domestic operators who care mainly about protecting their east coast custom."⁵⁶⁰

The Shire of Broome recommended to the Committee that cabotage be allowed between regional airports, such as Broome, and four primary Australian international airports. It was seeking to encourage a Singaporean airline to stop at Broome on its way to the eastern States:

*If Singapore passengers were to stop in Broome for a week or whatever it is, we would be able to put Broome residents or residents of the Kimberley onto that flight onto Melbourne [or] to Sydney onto that international flight. At the moment that is not allowed in Australia.*⁵⁶¹

556 International Civil Aviation Organization, *Freedoms of the Air*, nd. Available at: www.icao.int/Pages/freedomsAir.aspx. Accessed on 26 October 2017.

557 *The Conversation*, "Explainer: cabotage and why foreign airlines don't fly domestic", 2 June 2015. Available at: <https://theconversation.com/explainer-cabotage-and-why-foreign-airlines-dont-fly-domestic-42350>. Accessed on 26 October 2017.

558 The Treasury, *Competition Policy Review- Final Report*, March 2015, p209. Available at: http://competitionpolicyreview.gov.au/files/2015/03/Competition-policy-review-report_online.pdf. Accessed on 26 October 2017.

559 Ibid.

560 Ibid.

561 Councillor Harold Tracey, Deputy Shire President, Shire of Broome, Shire of Broome, *Transcript of Evidence*, 24 August 2017, p3.

The proposal to allow foreign airlines to pick up domestic passengers was also supported by the Karratha and Districts Chamber of Commerce and Industry, not only to encourage more tourists to visit the Pilbara, but as a way of lowering regional airfares to capitals such as Perth.⁵⁶²

Both Virgin and Qantas are strongly opposed to lifting the current restrictions. According to Qantas:

*We think it has huge implications for the unwinding of Australia's air travel market. We would immediately have to take steps to respond, which we believe would be harmful not only to our business, but, importantly, communities and, for example, the Western Australian economy. To give you some detail on that, we would be competing then with labour costs from presumably South-East Asia. ... We would be dealing with safety standards that would come out of Indonesia. So, Australia would be outsourcing its entire regulatory safety regime to a third country for the first time.*⁵⁶³

Virgin Australia responded similarly:

*...we would not support the introduction of cabotage, even on a limited basis. ...but our view is that over the longer term, it would likely have a detrimental impact on both the Australian aviation and tourism industries. What you would have is a situation where a foreign carrier would operate on the route...and it would be able to offer capacity at a marginal pricing level that would be lower than the cost faced by the domestic operators. So, over time, what you would likely see is the domestic carriers withdrawing capacity from that route and redeploying the aircraft on to higher yielding routes.*⁵⁶⁴

Virgin linked its opposition to the proposal to the likely impact on regional tourism:

...the domestic airlines that put the bulk of the investment into marketing and tourism promotion activity in the regions, and you would not see that happening with foreign carriers. I think it is important to remember that three-quarters of tourism activity in this country is domestic, not international. If that was withdrawn from particular

562 Mr Vaughan Corps, Vice-President, Karratha and Districts Chamber of Commerce and Industry, *Transcript of Evidence*, 23 August 2017, p11.

563 Mr Andrew Parker, Group Executive, Government, Industry and International Affairs, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p14.

564 Ms Jane McKeon, Group Executive, Government Relations, Virgin Australia, *Transcript of Evidence*, 11 September 2017, p13.

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*regions and you just had domestic carriers operating on the trunk routes, that would really be to the detriment of regional tourism.*⁵⁶⁵

Qantas told the Committee that “China and Albania have a relationship along these lines— I could not find another country that does this, so it would be unprecedented.”⁵⁶⁶ It said that if international airlines wanted to carry domestic passengers then they could set up as a domestic airline and compete against Qantas and Virgin Australia, as had been done by Tigerair.⁵⁶⁷

At the last Federal election, the Federal ALP’s policy was that it opposed “allowing international airlines to fly domestic legs of flights in Australia. This would create an uneven playing field for Australian aviation employees and operators.”⁵⁶⁸

The Federal Coalition Government’s Expenditure Review Committee (ERC) in 2015 considered lifting cabotage exemptions for air routes in northern Australia, as part of its *White Paper on Developing Northern Australia*. According to one news report, the ERC was “deeply divided on the issue” with some members, such as Trade and Tourism Minister Andrew Robb and Treasurer Joe Hockey, supporting the proposal while the National Party Leader, Deputy Prime Minister Warren Truss, was opposed to it.⁵⁶⁹ The proposal to lift cabotage exemptions for northern Australian airports has not been implemented since the ERC debate in 2015.

Finding 47

The proposal to lift cabotage restrictions in Australia is supported by two major regional centres in Western Australia as a way of boosting tourism and lowering airfares for residents, but is strongly opposed by the two largest airlines serving the State.

8.10 Initiatives From Other Australian Jurisdictions

The Department of Transport (DoT) told the Committee that several years ago it had engaged with all other Australian jurisdictions in a collaborative forum on aviation

565 Ibid.

566 Mr Andrew David, CEO, Qantas Domestic, Qantas Airways Ltd, *Transcript of Evidence*, 11 September 2017, p15.

567 Ibid.

568 Australian Labor Party, *Labor’s Plan For Aviation & Airports*, 2016, p4. Available at: http://anthonyalbanese.com.au/albo_wpbird/wp-content/uploads/2016/12/Labors_Positive_Plan_For_Aviation.pdf. Accessed on 26 October 2017.

569 News.com.au, *Cheap airfares and foreign airlines on ‘Northern Australia’ agenda*, 8 May 2015. Available at: www.news.com.au/finance/business/travel/cheap-airfares-and-foreign-airlines-on-northern-australia-agenda/news-story/78d67b71d50cb15f5b2a663f05ef5255. Accessed on 26 October 2017.

services. It found this forum very useful and that it had heard that most jurisdictions had deregulated their regional air services.⁵⁷⁰

New South Wales

Under the *Air Transport Act 1964 (NSW)*, Transport for NSW offers a standard five-year term to airlines running regulated routes, which are those routes carrying 50,000 or less passengers per annum. These routes are operated by a single airline that requires a licence for each regulated route.⁵⁷¹

Higher-volume routes are deregulated, competitive and airlines do not require a licence. The Minister for Transport has declared as deregulated all intrastate routes not using Sydney Kingsford Smith Airport, and the routes between Sydney Kingsford Smith Airport and 16 larger towns, such as Albury.⁵⁷²

Transport for NSW is currently considering expressions of interest for the Sydney-Lord Howe Island route. This existence of this air route is seen as ‘critical’ as tourism is the Island’s major industry and income source for residents, and allows them to remain connected to the mainland. The Department is considering increasing its standard 5-year contract for the successful bidder of this route.⁵⁷³

Northern Territory

The passing of the *Northern Territory Aviation Act* in January 1992 deregulated the intra-Territory aviation industry, which meant that aircraft operators offering scheduled, charter or aerial work services no longer require a licence to operate. However, the Northern Territory Government continues to assist with maintaining airside infrastructure at 70 strategic remote aerodromes, mainly to support medical services and aeromedical evacuations. It also assists with funding Airport Reporting Officers at 18 aerodromes to assist operators meet CASA’s regulatory requirements.⁵⁷⁴

Unusually for a deregulated jurisdiction, the NT Government is providing funding to support a three-year trial of a RPT ‘milk run’ service from Darwin to Alice Springs, through the major regional townships of Katherine and Tennant Creek. The aim is to try

570 Mr Brett Hughes, Executive Director, Transport Strategy and Reform, Department of Transport, *Transcript of Evidence*, 9 August 2017, p17.

571 Transport for NSW, *Regulated routes*, 2017. Available at: www.transport.nsw.gov.au/operations/regional-air-operators#Regulated_routes. Accessed on 26 October 2017.

572 Transport for NSW, *Deregulated routes*, 2017. Available at: www.transport.nsw.gov.au/operations/regional-air-operators#Deregulated_routes. Accessed on 26 October 2017.

573 Transport for NSW, *Air Services between Lord Howe Island and Sydney*, 2017. Available at: www.transport.nsw.gov.au/operators/regional-air/air-services-between-lord-howe-island-and-sydney. Accessed on 26 October 2017.

574 Mr Andrew Kirkman, Chief Executive, Department of Infrastructure, Planning and Logistics (NT), Letter, 18 September 2017, p1.

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and ensure that the service becomes commercially sustainable.⁵⁷⁵ The trial is operated by Airnorth until October 2018 and offers flights three times a week on a 30-seat Embraer E120 aircraft. Airfares for this route range from \$149 to \$249 one-way.⁵⁷⁶

Queensland

Following a review of long distance air, coach and rail services during 2013, the Queensland Government announced in early 2015 that it would deregulate three routes from Cairns and Townsville while maintaining seven regulated routes. Two of these routes were awarded to QantasLink and five to Rex. All of the regulated routes are not direct ones and involve at least one intermediate stop. The Gulf route 'milk run' includes six airports and the Western 2 route, nine airports. Both of these services are operated by Rex.⁵⁷⁷

Given the criticism made to the Committee in some communities that airline schedules in regional WA were primarily based on the needs of resource companies, in Queensland Qantas announced that it would upgrade its two regulated routes to 50 or 75 seat Dash 8 aircraft and "[w]e have also timed the services in consultation with the local communities, to ensure that our flights are best suited to their needs."⁵⁷⁸

The Committee was told that the Queensland Government has put a lot of effort into subsidising their regional air routes. DoT said it did not have clear information about the size of the Queensland budget for subsidies, "but they have indicated that it is a lot of money" compared to what is spent in Western Australia.⁵⁷⁹

The recent Queensland 2017-18 Budget papers do not clearly indicate the total subsidy provided by that Government to the regulated routes. However, the Budget does report that the target subsidy of \$33.40 per passenger for the 2016-17 period actually finished as \$51.10 per passenger, due to:

...reduced patronage related to the decline in the resource sector and a decline in overall economic conditions. The reduction in passenger numbers has led to the flight schedules being reduced ..., resulting in less

575 Ibid.

576 Airnorth, *Airnorth to operate Darwin-Katherine-Tennant Creek-Alice Springs route*, 10 September 2015, p1. Available at: www.airnorth.com.au/sites/default/files/Media%20Release%20-%20Airnorth%20to%20operate%20Centre%20Run.pdf. Accessed on 26 October 2017.

577 Department of Transport and Main Roads, *Long distance air services*, 12 September 2017. Available at: www.tmr.qld.gov.au/regionalconnect. Accessed on 31 October 2017.

578 Qantas Airways, *QantasLink welcomes Queensland regulated route decision*, 15 October 2014. Available at: www.qantasnewsroom.com.au/media-releases/qantaslink-welcomes-queensland-regulated-route-decision/. Accessed on 31 October 2017.

579 Mr Brett Hughes, Executive Director, Transport Strategy and Reform, Department of Transport, *Transcript of Evidence*, 9 August 2017, p17.

*revenue to the State, which increases the average subsidy per passenger.*⁵⁸⁰

The Budget papers also report that “[p]assenger numbers failed to reach expected targets across all air routes” and the expected patronage in 2016-17 on these routes of 200,000 passengers ended as only 160,000.⁵⁸¹ This would indicate that the Government subsidy in 2016-17 for these air routes was over \$8 million.

Local Fare Scheme

The *Local Fare Scheme* for residents was established by the Palaszczuk Government in July 2015 after it had been axed by the former Newman Government. An airfare subsidy is available to local residents who have lived in communities in the Torres Strait, Cape York and the Gulf of Carpentaria for more than three years. Residents may receive a discount of up to \$400 for return airfare bookings.⁵⁸² The Scheme received an additional \$2 million in the 2017-18 Budget to expand it to the Gulf route ‘milk run’ operated by Rex. The 12 month trial will allow the collection of data to determine if the Scheme is a viable solution to improving the cost of travel to the communities of Doomadgee, Mornington Island and Weipa.⁵⁸³

Attracting Aviation Investment Fund

Queensland’s *Attracting Aviation Investment Fund* (AAIF) aims to attract new international airline routes to Queensland and expand existing routes. The fund was established with an initial investment of \$8 million in 2013 by the Newman Government.⁵⁸⁴ In 2015-16, the Palaszczuk Government committed \$10 million over three years to the AAIF which Premier Palaszczuk said “has secured new partnerships with SilkAir, Qantas, Jetstar, Hong Kong Airlines and Air Canada over the past 12 months.”⁵⁸⁵

580 Queensland Government, *Service Delivery Statements- Department of Transport and Main Roads*, 13 June 2017, pp16-17. Available at: <https://s3.budget.qld.gov.au/budget/papers/5/bp5-dtmr-2017-18.pdf>. Accessed on 31 October 2017.

581 Ibid, p 15.

582 Department of Transport and Main Roads, *Local Fare Scheme – Airfare subsidy for regional and remote Queensland*, 31 August 2017. Available at: www.tmr.qld.gov.au/Travel-and-transport/Local-Fare-Scheme-Far-North-Queensland.aspx. Accessed on 31 October 2017.

583 Hon JA Trad, Deputy Premier, Minister for Transport and Minister for Infrastructure and Planning, Queensland, Assembly, *Parliamentary Debates* (Hansard), 19 July 2017, p45. Available at: www.parliament.qld.gov.au/documents/hansard/2017/2017_07_19_EstimatesIPC.pdf. Accessed on 31 October 2017.

584 Department of State Development, Infrastructure and Planning (QLD), *Aviation and Aerospace-Opportunities in Queensland*, May 2013, p8. Available at: www.dilgp.qld.gov.au/resources/brochure/invest-queensland-aviation.pdf. Accessed on 26 October 2017.

585 Queensland Government, *Extra international flights help tourism soar*, 18 May, 2016. Available at: www.thepremier.qld.gov.au/newsroom/international-flights.aspx. Accessed on 26 October 2017.

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In the past year alone, it claimed that the AAIF has “delivered an extra 436,000 seats on air routes into the State and secured two new international air routes as well as a new domestic route.”⁵⁸⁶ The Minister for Tourism, Major Events and the Commonwealth Games announced in March this year that the AAIF:

*...has helped secure ... around 200,000 seats per year. These additional seats have the potential to bring an extra \$440 million in tourism expenditure for our economy.*⁵⁸⁷

In June this year Tigerair launched a new low-cost route between Melbourne and Townsville, providing four weekly return direct services with more than 1,400 additional visitor seats in an Airbus A320. The new service is supported by the AAIF, in partnership with the Townsville City Council and Queensland Airports Limited, who manage the Townsville Airport.⁵⁸⁸

Townsville’s population of approximately 187,000 people⁵⁸⁹ supports the claim made by the CEO of Broome International Airport that low-cost carriers need to serve a population centre with a minimum population of over 100,000 people at each end of the route, or an airport at each end servicing a million passengers a year.⁵⁹⁰ In 2016-17, the privately owned Townsville Airport had 1.53 million passenger movements and was served by seven airlines- Qantas, Jetstar, Virgin Australia, Rex, Alliance, Jetgo and Tigerair. Flights are offered by these airlines on both domestic and international routes.⁵⁹¹

CASE STUDY- Townsville versus Kununurra tourist routes

The new Tigerair low-cost service will add approximately 75,000 passenger seats to Townsville Airport annually.⁵⁹² Flights for a date two months ahead of October 2017 on

586 Queensland Government, *State Budget delivers continued support for Queensland’s tourism industry*, 13 June 2017. Available at: <http://statements.qld.gov.au/Statement/2017/6/13/state-budget-delivers-continued-support-for-queenslands-tourism-industry>. Accessed on 26 October 2017.

587 Queensland Government, *Queensland set to welcome more Chinese visitors*, 20 March 2017. Available at: <http://statements.qld.gov.au/Statement/2017/3/20/queensland-set-to-welcome-more-chinese-visitors>. Accessed on 26 October 2017.

588 Townsville Airport, *Tigerair Australia launches direct daytime services between Townsville and Melbourne*, nd. Available at: www.townsvilleairport.com.au/tigerair-australia-launches-direct-daytime-services-between-townsville-and-melbourne/. Accessed on 26 October 2017.

589 Population Australia, *Townsville Population 2017*, 2017. Available at: www.population.net.au/townsville-population/. Accessed on 26 October 2017.

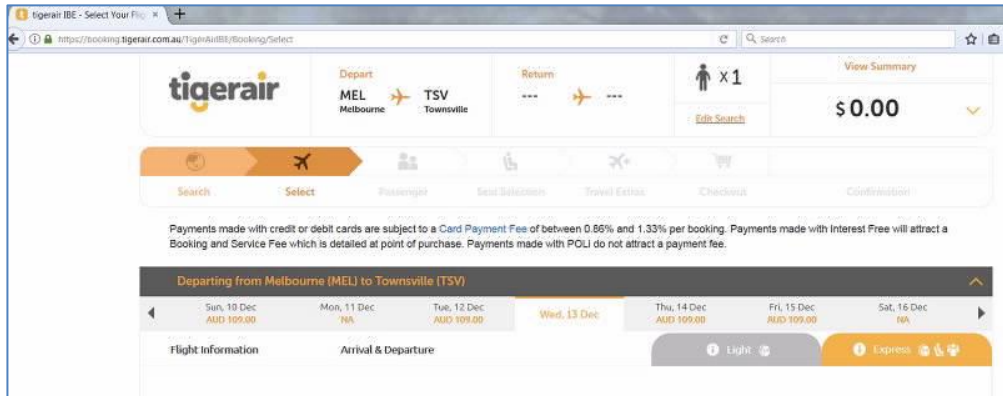
590 Mr Paul McSweeney, CEO, Broome International Airport, *Transcript of Evidence*, 22 August 2017, p2.

591 Townsville Airport, *About Townsville Airport*, nd. Available at: www.townsvilleairport.com.au/corporate/about-townsville-airport/. Accessed on 26 October 2017.

592 Tigerair, *Tigerair Australia Commences Only Direct Daytime Low Cost Services Between Melbourne And Townsville*, 22 June 2017, p1. Available at: <https://s3-ap-southeast->

Tigerair on 10 December 2017 could be booked for as low as \$109 one-way, with flights in the following fortnight up to \$299 (see Figure 7.1).

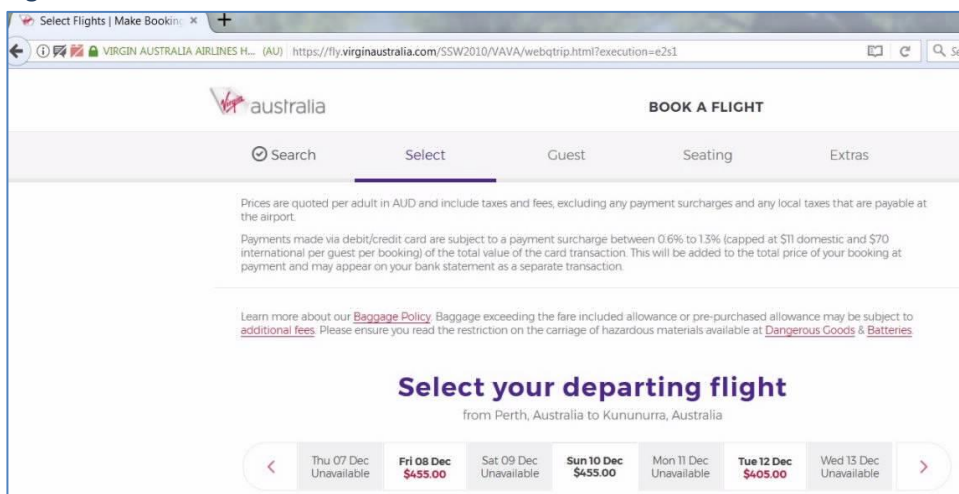
Figure 7.1- \$109 airfares from Melbourne to Townsville



The distance of Melbourne to Townsville is approximately 2,060km, slightly less than Perth to Kununurra (2,217km). Kununurra is served by Virgin Australia and Airnorth and in 2016-17 it served 71,000 passengers. Of these about two-thirds were carried by Airnorth on its Broome-Kununurra-Darwin services.

Flights for a date two months ahead of October 2017 on Virgin Australia for the direct Perth-Kununurra route on 10 December 2017 cost \$455 one-way, with the cheapest flights in the following month priced at \$405 (see Figure 7.2), a figure nearly four times that of the Melbourne-Townsville service. This comparison indicates the impact on market competition on tourist route airfares provided by low-cost carriers.

Figure 7.2- \$405 airfares from Perth to Kununurra



2.amazonaws.com/media.tigerair.com.au/newsroom/mel_tsv_final.pdf. Accessed on 26 October 2017.

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Advance Queensland: Connecting with Asia Strategy

A separate *Advance Queensland: Connecting with Asia Strategy* fund of \$33.5 million matches tourist industry contributions dollar-for-dollar to pursue opportunities and implement initiatives to boost visitor growth from across Asia.⁵⁹³

South Australia

Like other jurisdictions, the South Australian Government provides joint contributions to the Commonwealth's Remote Airstrip Upgrade Project. Similarly to Queensland, it has also established its own *Supporting Regional Aviation* initiative, with initial funding of \$1 million. It does not provide funding or subsidies to airlines though.⁵⁹⁴

The *Air Transport (Route Licencing-Passenger Services) Act 2002 (SA)* allows a Minister to 'declare' a route between two airports to encourage an air services operator to establish or improve scheduled services on that route. SA has one declared route between Adelaide and Port Augusta. The SA Government can also provide a 'sole route' service licence under its *Air Transport Act* to establish a stable schedule of services and fares.⁵⁹⁵ A sole route licence was recently awarded to Sharp Airlines to operate the Adelaide to Port Augusta route. The licence is similar to WA's Deed of Agreement for a regulated route in that it outlines the schedules to be run and the fare structure to be provided by the successful airline. Under the licence, Sharp Airlines must meet with departmental officials quarterly to discuss the route.⁵⁹⁶

Tasmania

Air travel is not regulated in Tasmania, so airlines do not need a state-based licence for either aircraft operation or for access to specific routes. There is also no state-based requirement for airlines to submit pricing plans to a regulator. Tourism Tasmania works on a project-by-project basis with airport operators with regard to their infrastructure. It also has direct airline partnerships that include agreed cooperative marketing funding linked to specific routes.⁵⁹⁷

593 Ibid.

594 Mr Michael Deegan, Chief Executive, Department of Planning, Transport and Infrastructure (SA), Letter, 19 October 2017, p1.

595 Ibid, p2.

596 Parliament of SA, Legislative Assembly Tabled Paper, *New Route Service Licence*, 14 February 2017, p2. Available at:

www.parliament.sa.gov.au/HOUSEOFASSEMBLY/BUSINESSOFTHEASSEMBLY/RECORDSANDPAPERS/TABLEDPAPERSANDPETITIONS/Pages/TabledPapersandPetitions.aspx?TPLoadDoc=true&TPDocName=Report%2B-%2BAdelaide%2Bto%2BPT%2BAugusta%2BAir%2BService%2BLicence%2B-%2BSharp%2BAirlines.pdf. Accessed on 26 October 2017.

597 Mr Kim Evans, Secretary, Department of State Growth (TAS), Letter, 25 September 2017, p1.

The Tasmanian Department of State Growth has two concessional arrangements available to Bass Strait Islands' residents to support their use of RPT flights to access essential services. These are available to:

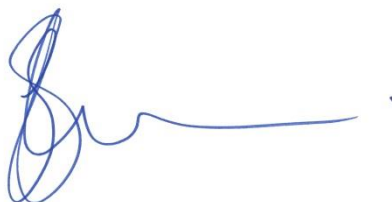
- age pensioners who are able to claim reimbursement of 50% of one return ticket per financial year from/to the Island; and
- school-age children, particularly those attending years 11 and 12, or attending an educationally appropriate school that is unavailable on the Islands, are entitled to up to nine return flights per year, including airport transfers on the Tasmanian mainland.⁵⁹⁸

Victoria

The WA Department of Transport told the Committee that the Victorian Government aviation activity was focused on skills development and economic development of aviation-related industries, and it had deregulated its aviation sector and “is not interested in aviation as an operation. They are interested in aviation as a business.”⁵⁹⁹

Finding 48

Most other Australian jurisdictions regulate at least one economically marginal air route. The Queensland Government has a specific fund to support regional air services, particularly those focused on increasing their tourist sector and providing essential air services in remote areas in northern Queensland.

A handwritten signature in blue ink, consisting of a large, stylized initial 'S' followed by a long, horizontal line.

Ms J.J. Shaw, MLA

CHAIR

⁵⁹⁸ Ibid.

⁵⁹⁹ Mr Brett Hughes, Executive Director, Transport Strategy and Reform, Department of Transport, *Transcript of Evidence*, 9 August 2017, p17.

Appendix One

Inquiry Terms Of Reference

The Economics and Industry Standing Committee resolved to inquire into and report on matters relating to airfare prices on regular public transport (RPT) air routes in regional Western Australia. In particular, the Committee evaluated the:

- a. factors contributing to the current high cost of regional airfares;
- b. impacts that high-cost regional airfares have on regional centres- from a business, tourism and social perspective;
- c. impact of State Government regulatory processes on the cost and efficiency of regional air services;
- d. actions that the State and local government authorities can take to limit increases to airfares without undermining the commercial viability of RPT services;
- e. actions that airlines can take to limit increases to airfares without undermining the commercial viability of RPT services; and
- f. recent actions taken by other Australian governments to limit regional RPT airfare increases.

Appendix Two

Submissions Received

No.	Name	Position	Organisation
1	Confidential		
2	Mr Colin Scott		
3	Mr Bob Davis	Director Corporate & Commercial Services	City of Greater Geraldton
4	Mr Chris Adams	Chief Executive Officer	City of Karratha
5	Mr Price Grey		
6	Mr Matthew Scott	Chief Executive Officer	Shire of Esperance
7	Ms Dorothy Radisich		
8	Cr Peter Foster JP	Councillor- Tom Price Ward	Shire of Ashburton
9	Ms Rosalia Scacchia		
10	Mr Carl Askew	Chief Executive Officer	Shire of Wyndham-East Kimberley
11	Mr Vince Catania MLA	Member for North West Central	National Party of Australia (WA)
12	Mr Neil Smithson	Managing Director	Smithson Planning
13	Ms Tegan Simmonds		
14	Ms Sonja Mitchell	Sales and Marketing Manager	HeliSpirit
15	Ms Kerry Jones		Shark Bay Hotel
16	Mr Gareth Thomas	Chief Operating Officer	Seashells Hospitality Group
17	Neil and Allison Portas		
18	Ms Hanneke Schoe		
19	Ms Sarah Roots		
20	Ms Emma-lee Jane		
21	Mr Troy Thompson		
22	Ms Kaylene Somerville	Accounts Manager	Kununurra Engineering
23	Mr Grant Smart		
24	Ms Cally Dupe		
25	Ms Ann Hobbs	Independent Travel Consultant	Travel Partners North West
26	Ms Bronwen Thomas		
27	Mr Stephen Wood	Acting Director General	Department of Jobs, Tourism, Science and Innovation
28	Mr Paul Anderson	Chief Executive Officer	Shire of Shark Bay
29	Ms Cheryl & Mr Peter Muir		

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30	Ms Mandy Dietrich		
31	Ms Kitty Prodonovich	Chief Executive Officer	Regional Chambers of Commerce and Industry of Western Australia
32	Hon Robin Scott MLC	Member for Mining and Pastoral	Pauline Hanson's One Nation
33	Mr Paul McSweeney	Chief Executive Officer	Broome International Airport
34	Ms Chantelle King	Chief Executive Officer	Onslow Chamber of Commerce and Industry
35	Mr Allen Cooper	Chief Executive Officer	Shire of East Pilbara
36	Ms Bridget Parish		
37	Mr David Riddell-Robertson		
38	Ms Karley Allen		
39	Ms Claire English		
40	Mr Simon Hopkin		
41	Ms Tanya Cox		
42	Ms Leearna Alexander		
43	Mr Mike Garstone		
44	Mr Troy Sweeney		
45 & 45A	Associate Professor Jianhong Xia		Curtin University
46	Ms Tricia Hebbard	Secretary	WA Labor- South Hedland Branch
47	Mr Andrew Wood		
48	Ms Keda Bond		
49	Mr Brodie Neilson		
50	Ms Marian Carpenter		
51	Mr Graeme Hutton		
52	Ms Lea Vesic	Membership & Technical Officer	Regional Aviation Association of Australia
53	Mr Laurie Graham MLC	Member for the Agricultural Region	Australian Labor Party
54	Ms Joanne Pavlinovich		
55	Ms Jael Napper	Chief Executive Officer	Broome Chamber of Commerce & Industry
56 & 56A	Ms Nicole Roocke	Deputy Chief Executive	Chamber of Minerals and Energy of WA
57	Mr Warrick Lodge	General Manager Network Strategy & Sales	Regional Express (REX)
58	Ms Lee-Anne Tomkins	Head of Government and International Relations	Virgin Australia

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59	Mr Peter Long	Chairman	Western Australian Regional Capitals Alliance
60	Ms Laine Ellis		
61	Ms Janelle Atwell		
62	Ms Kellie Jackson		
63	Ms Amy McKenna	Media and Government Relations Manager Advocacy and Members	Royal Automobile Club of WA (Inc)
64	Mr Gavin Robins	Chief Executive Officer	Gascoyne Development Commission
65	Mr Alan Bradley	Executive Officer	Regional Development Australia - Mid West Gascoyne
66	Ms Tahn Donovan	Chair	WA Indigenous Tourism Council
67	Hon Darren West MLC	Member for the Agricultural Region	Australian Labor Party
68	Mr Glen Chidlow	Chief Executive Officer	Australia's North West Tourism
69	Mr Michael McConachy	Chair	East Kimberley Marketing Group
70,70A & 70B	Ms Caroline Wilkie	Chief Executive Officer	Australian Airports Association
71	Ms Jacinta Middleton		
72	Ms Amanda Harding		
73	Ms Deb Williams	General Manager	Seashells Broome
74	Mr Scott Stirling	Project Officer	Pilbara Regional Council
75	Mr Jeffrey Cannon		
76	Ms Wendy Jones		
77	Ms Laura Camilleri		
78	Ms Morag Lowe		
79 & 79A	Mr Sam Mastrolembo	Chief Executive Officer	Shire of Broome
80	Ms Maria Magnay		
81	Hon Kyle McGinn MLC	Member for the Mining and Pastoral Region	Australian Labor Party
82	Mr Stephen Gash	Chief Executive Officer	Shire of Derby/West Kimberley
83	Ms Lenore Batt		
84	Mr Jim Williams		
85	Ms Belinda Brown		
86	Mr Evan Hall	Chief Executive Officer	Tourism Council WA
87	Ms Sue Knowles		

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88	Mr Stephen Gash	Secretariat Kimberley Regional Group	Kimberley Zone of WALGA
89	Mr Simon Bennison	Chief Executive Officer	Association of Mining and Exploration Companies Inc
90	Mr Michael Leake		
91	Ms Joanne Sadler		
92	Mr Kevin Ring	Committeeman	WA Jockey's Association
93	Mr Warren Olsen	Acting Deputy Chief Executive Officer	Shire of Wiluna
94 & 94A	Mr Richard Sellers	Director General	Department of Transport
95 & 95A	Mr Andrew Parker	Group Executive, Government, Industry and International Affairs	Qantas Airways
96	Hon Mia Davies MLA	Leader	Parliamentary National Party of Australia (WA)
97	Mr Ian Duncan	Executive Manager, Infrastructure	WALGA
98	Mr Ralph Addis	Director General	Depart of Primary Industries & Regional Development
99	Ms Erin Gellie		
100	Mr Bill Townsend	General Manager External Affairs and Joint Ventures	INPEX
101	Mr Bradley Woods	Chief Executive Officer	Australian Hotels Association WA
102	Mr John Lally	Chief Executive Officer	Karratha Districts Chamber of Commerce & Industry
103	Mr Terry Hill	Chief Executive Officer	Pilbara Development Commission
104	Mr Sam Mastrolembo	Chief Executive Officer	Shire of Broome
105	Mr Rod Evans	General Manager	PHIA Operating Company Pty Ltd
106	Mr Jeff Gooding	Chief Executive Officer	Kimberley Development Commission
107	Ms Dianne Moar		
108	Ms Paula Fletcher		
109	Ms Samantha Duddy		
110	Ms Allison Bruce		
111	Mr Hugh Gallagher	Chief Executive Officer	Kalgoorlie-Boulder Chamber of Commerce & Industry
112	Mr Charlie Sharpe		

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113	Ms Marcia Bryce		
114	Ms Anne McCall		
115	Ms Gina Yorke		
116	Ms Jacqui Smith	Manager	Goldfields Women's Refuge
117 & 117A	Mr David Pentz	Chief Executive Officer	Town of Port Hedland
118	Ms Kate Clarke	Chief Executive Officer	Puntuturnu Aboriginal Medical Service
119	Mr John Walker	Chief Executive Officer	City of Kalgoorlie-Boulder
120	Mr Stephen Borthwick	Acting Executive Director, Aviation and Airports	Department of Infrastructure and Regional Development
121	Mr Michael Deegan	Chief Executive	Department of Planning, Transport and Infrastructure (SA)
122	Ms Anne Nolan	Director General	Department of Finance

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Hearings Held

Date	Name	Position	Organisation
9 August 2017	Mr Steve Beyer	Acting Managing Director, Policy, Planning and Investment	Department of Transport
	Mr Brett Hughes	Executive Director, Transport Strategy and Reform	
	Mr Peter Ryan	Director, Aviation	
16 August 2017	Mr Ralph Addis	Acting Director General	Department of Primary Industries and Regional Development
	Mr Martin Clifford	Manager, Policy and Strategy (Regional Development Division)	
<u>Kununurra</u> 21 August 2017	Mr Carl Askew	Chief Executive Officer	Shire of Wyndham-East Kimberley
	Mr Paul Bawden	Manager, East Kimberley Regional Airport	
	Mr Jeff Gooding	Chief Executive Officer	Kimberley Development Commission
	Ms Jill Williams	Chairperson	East Kimberley Chamber of Commerce and Industry
	Ms Michele Pucci	Vice Chairperson	
<u>Broome</u> 22 August 2017	Cr Harold Tracey	Acting Shire President	Shire of Broome
	Mr Sam Mastrolembo	Chief Executive Officer	
	Ms Aletta Nugent	Director, Development and Community	
	Mr Mark Davis	Manager, Community and Economic Development	
	Mr Paul McSweeney	Chief Executive Officer	

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	Ms Kimberley Krenz	Commercial Manager	Broome International Airport
	Mr Robert Menzies	Executive Manager Infrastructure	
	Mr Peter Taylor	President	Broome Chamber of Commerce and Industry
	Ms Jael Napper	Chief Executive Officer	
	Mrs Elsia Archer	Shire President	Shire of Derby-West Kimberley
	Mr Stephen Gash	Chief Executive Officer	
	Mr Paul Bickerton	President	Derby Chamber of Commerce and Industry
	Mr Stewart Milne	Vice President	
	Mr Michael Leake	Manager	Habitat Resort
	Mr James Brown	Chair	Broome Tourism Leadership Group
	Mr William Reed AM	Director	Allure South Sea Pearls
<u>Karratha</u> 23 August 2017	Mr Simon Kot	Director, Strategic Projects and Infrastructure Services	City of Karratha
	Mr John Lally	Chief Executive Officer	Karratha and Districts Chamber of Commerce and Industry
	Mr Vaughan Corps	Vice President	
	Mrs Cassie Perry	Board Member	
	Mr Terry Hill	Chief Executive Officer	Pilbara Development Commission
	Mr Armando de la Flor Olavide	Senior Partnerships and Engagement Officer	Town of Port Hedland
	Mr Owen Hightower	Consultant	
<u>Albany</u> 29 August 2017	Mr Dennis Wellington	Mayor	City of Albany
	Mr Andrew Sharpe	Chief Executive Officer	
	Mr Michael Cole	Executive Director of Corporate Services	
	Mr Paul Rosair	Executive Officer	WA Regional Capitals Alliance
	Ms Caroline Hayes	President	Albany Chamber of Commerce and Industry
	Mr Russell Clarke	Chief Executive Officer	
	Ms Elise van Gorp	General Manager	Discovery Bay

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	Ms Cathy Glen		Skal International
<u>Esperance</u> 30 August 2017	Cr Victoria Brown	President	Shire of Esperance
	Cr Natalie Bowman	Deputy President	
	Mr Matthew Scott	Chief Executive Officer	
	Ms Kylie Ryan	Chief Executive Officer	Esperance Chamber of Commerce and Industry
	Mr Wayne Halliday	Chairperson	Tourism Esperance
<u>Kalgoorlie</u> 31 August 2017	Mr John Bowler	Mayor	City of Kalgoorlie-Boulder
	Mr John Walker	Chief Executive Officer	
	Ms Jessica Biddle	President	Kalgoorlie-Boulder Chamber of Commerce and Industry
	Mr Hugh Gallagher	Chief Executive Officer	
	Mr Ronald Mosby	President	Regional Chambers of Commerce and Industry of WA
	Mr Shayne Flanagan	Chief Executive Officer	Goldfields-Esperance Development Commission
6 September 2017	Associate Professor Jianhong Xia	Lecturer, Department of Spatial Sciences	Curtin University
	Ms Derryn Belford	Executive Director, Destination Development	Tourism WA
	Ms Claire Werkmeister	Director, Aviation Development and Policy	
	Mrs Louise Scott	Executive Director, Strategy, Brand and Marketing Services	
11 September 2017	Ms Chantelle King	Chief Executive Officer	Onslow Chamber of Commerce and Industry
	Ms Hayley Brett	Vice President	
	Mr Andrew David	Chief Executive Officer, Qantas Domestic	Qantas Airways Ltd

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	Mr Andrew Parker	Group Executive, Government, Industry and International Affairs	
	Mr Guy Waddell	Head of Domestic Revenue Management	
	Mr Guy Thompson	President	Australian Airports Association
	Ms Caroline Wilkie	Chief Executive Officer	
	Mr Dale Stewart	Acting Chief Executive Officer	Shire of Ashburton
	Mr Troy Davis	Director, Infrastructure Services	
	Ms Jane McKeon	Group Executive, Government Relations	Virgin Australia
	Mr Anthony Stokes	General Manager, Finance	
	Mr Richard George	Head of Corporate Sales	
	Mr William Townsend	General Manager, External Affairs and Joint Venture	INPEX
	Mr John Williams	Manager, External Affairs	
	Mr Nicholas Wirtz	Senior External Affairs Officer	
13 September 2017	Hon Colin de Grussa, MLC	Member for the Agricultural Region	Parliamentary National Party of Australia (WA)
	Mr Vincent Catania, MLA	Member for North West Central	
	Ms Johanna Ramsay	Aviation Consultant	
	Mr Warrick Lodge	General Manager, Network Strategy and Sales	Regional Express (Rex)
18 September 2017	Mr Evan Hall	Chief Executive Officer	Tourism Council WA
	Ms Tania Donovan	Chairperson	Western Australian Aboriginal Tourism Operators Council
	Mr Robert Taylor	Chief Executive Officer	

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	Mrs Caroline Cherry	Manager, Economic Competitiveness	Chamber of Minerals and Energy Western Australian
	Ms Lisa-Maree Campbell	Policy Advisor	
	Mr Neil van Drunen	Policy Advisor	Association of Mining and Exploration Companies
	Mr Paul Cmrlec	Managing Director	Pantoro Ltd
	Mr Bob Davis	Director, Corporate and Commercial Services	City of Greater Geraldton
	Mrs Lynette Craigie	President	WA Local Government Association
	Mr Ian Duncan	Executive Manager, Infrastructure	
	Mr Anthony Friday	Chief Executive Officer	Pilbara Regional Council
	Mr Bradley Woods	Chief Executive Officer	Australian Hotels Association (WA)
	Ms Victoria Jackson	Government Relations Manager	
	Mr Stan Quinlivan	Chief Executive Officer	Skippers Aviation Pty Ltd
1 November 2017	Mr Steve Beyer	Acting Managing Director, Policy Planning and Investment	Department of Transport
	Mr Brett Hughes	Executive Director, Transport Strategy and Reform	
	Mr Peter Ryan	Director, Aviation	
	Mr Claude Scivolo		

Appendix Four

Significant WA Airports- Landing Charges Per Passenger (*return flight*)

Location	Owned By	Screening Fee (per departing passenger)	Terminal Fee (per passenger departing and arriving)	Landing Fee (per tonne MTOW) ⁶⁰⁰	TOTAL FEE (Return per passenger)
Perth International Airport ⁶⁰¹	Perth Airport Development Group Pty Ltd	\$2.36 to \$6.08 (depending on terminal)	\$14.35 to \$19.41 (depending on terminal)	\$5.06 (per passenger- \$247.26 minimum per aircraft)	\$20.55 maximum
Albany Airport ⁶⁰²	City of Albany	N/a	\$27.71 per passenger	\$26.09	\$55.42 plus % of landing fee
Broome International Airport ⁶⁰³	Pearl Coastal Properties Pty Ltd	\$13.24	\$20.37	\$23.65	\$53.98 plus % of landing fee
Derby ⁶⁰⁴	Shire of Derby/ West Kimberley	\$11.86	\$12.92	\$18.70	\$37.70 plus % of landing fee
Esperance Airport ⁶⁰⁵	Shire of Esperance	N/a	\$25.00	\$36.50	\$50.00 plus % of landing fee

600 B737-800 MTOW is 70.535 tonnes or about \$6 per passenger at 85% load factor. Submission No. 33 from Broome International Airport, 27 July 2017, p2.

601 Perth Airport, *Schedule of Aeronautical Charges- Effective 01 July 2017 to 31 December 2017*, 2017, p1. Available at: www.perthairport.com.au/-/media/Files/CORPORATE/Work-with-us/Airport-charges/Schedule-of-Aeronautical-Charges-01-July-2017-1.pdf?la=en . Accessed on 13 November 2017.

602 Mr Andrew Sharpe, CEO, City of Albany, Email, 22 September 2017.

603 Submission No. 33 from Broome International Airport, 27 July 2017, p2.

604 Submission No. 106 from Kimberley Development Commission, 24 August 2017, p8.

605 Shire of Esperance, *Statutory Budget 2017-2018: schedule of Fees and Charges 2017/2018*, 2017, p105. Available at:

www.esperance.wa.gov.au/sites/default/files/publication/files/2017-18_statutory_budget_final_website.pdf. Accessed on 14 November 2017.

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Geraldton Airport ⁶⁰⁶	City of Geraldton	\$17.27	\$20.45	\$16.36	\$58.17 plus % of landing fee
Kalgoorlie Airport ⁶⁰⁷	City of Kalgoorlie	\$9.05	\$23.45	\$11.73	\$55.95 plus % of landing fee
Karratha Airport ⁶⁰⁸	City of Karratha	\$15.50	\$13.10	\$62.00	\$61.70 plus % of landing fee
Kununurra Airport ⁶⁰⁹	Shire of Wyndham– East Kimberley	\$21.60	\$20.90	\$29.00	\$63.40 plus % of landing fee
Learmonth Airport (Onslow) ⁶¹⁰	Shire of Ashburton	\$19.00	\$36.00	\$33.00	\$91.00 plus % of landing fee
Newman Airport ⁶¹¹	Shire of East Pilbara	\$13.68	\$22.68	\$21.31	\$56.00 plus % of landing fee
Port Hedland International Airport ⁶¹²	AMP Capital and Infrastructure Capital Group	\$10.45 + \$1.56 check-in fee	\$24.24	\$24.56	\$60.49 plus % of landing fee
Wiluna Airport ⁶¹³	Shire of Wiluna	N/a	RPT- \$17.00 Charter- \$25.00	\$17.50 (6am-6pm) \$45.00 (6pm- 6am)	RPT- \$34.00 plus % of landing fee

606 Submission No. 119 from City of Kalgoorlie–Boulder, 31 August 2017, p18.

607 Ibid.

608 Mr Simon Kot, Director, Strategic Projects and Infrastructure Services, City of Karratha, *Transcript of Evidence*, 23 August 2017, pp5-6.

609 Submission No. 106 from Kimberley Development Commission, 24 August 2017, p8.

610 Shire of Ashburton, *Schedule of Fees and Charges 2016/17*, nd, p1. Available at: www.ashburton.wa.gov.au/library/file/Airport/1617%20PDF.pdf. Accessed on 10 November 2017.

611 Submission No. 119 from City of Kalgoorlie–Boulder, 31 August 2017, p18.

612 Port Hedland International Airport, *Schedule of Aviation Charges*, July 2017. Available at: www.porthedlandairport.com.au/corporate.html. Accessed on 21 September 2017.

613 Mr Warren Olsen, Acting Deputy CEO, Shire of Wiluna, Electronic Mail, 5 October 2017, p1.

Appendix Five

Total Passenger Movements At Selected WA Regional Airports (1985-2017)⁶¹⁴

Figure A5.1- Albany

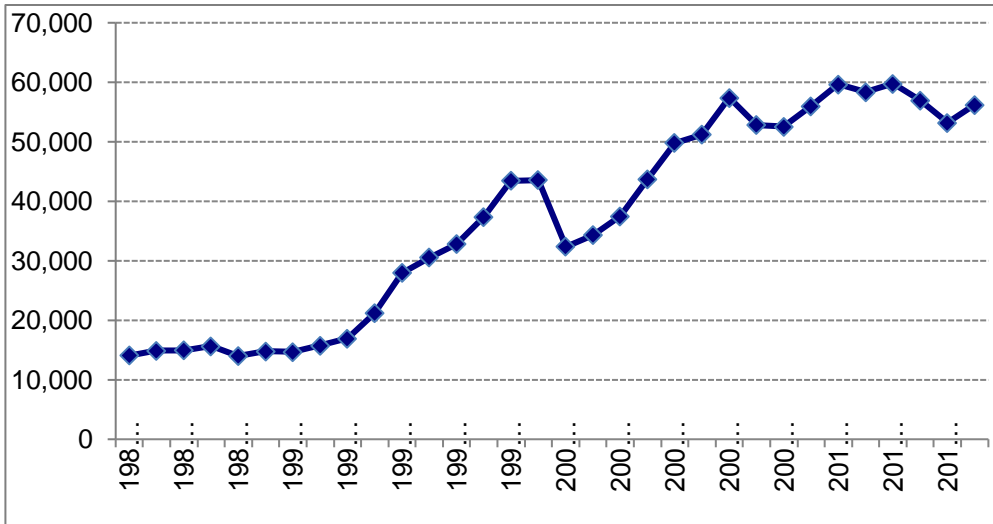
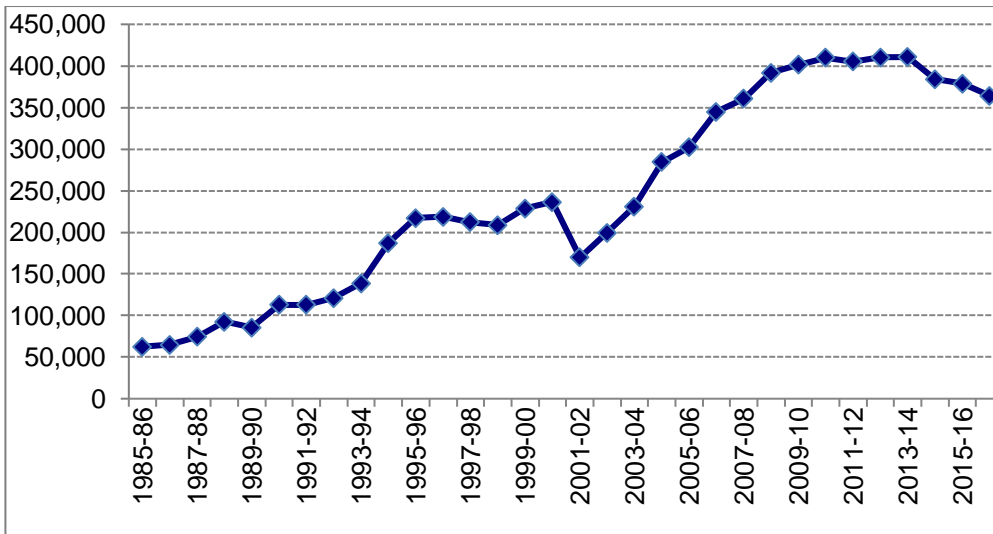


Figure A5.2- Broome



614 Department of Infrastructure and Regional Development, *Aviation Statistics*, 17 February 2015. Available at: https://bitre.gov.au/publications/ongoing/airport_traffic_data.aspx. Accessed on 19 October 2017.

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Figure A5.3- Carnarvon

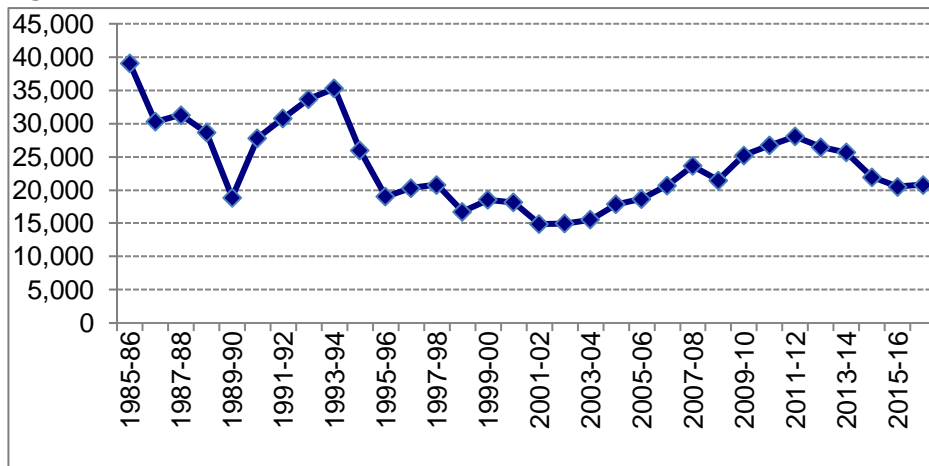


Figure A5.4- Esperance

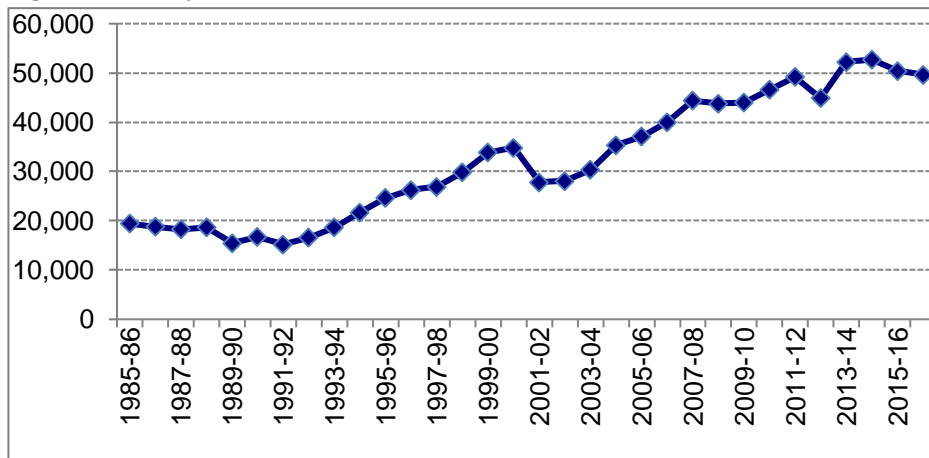


Figure A5.5- Geraldton

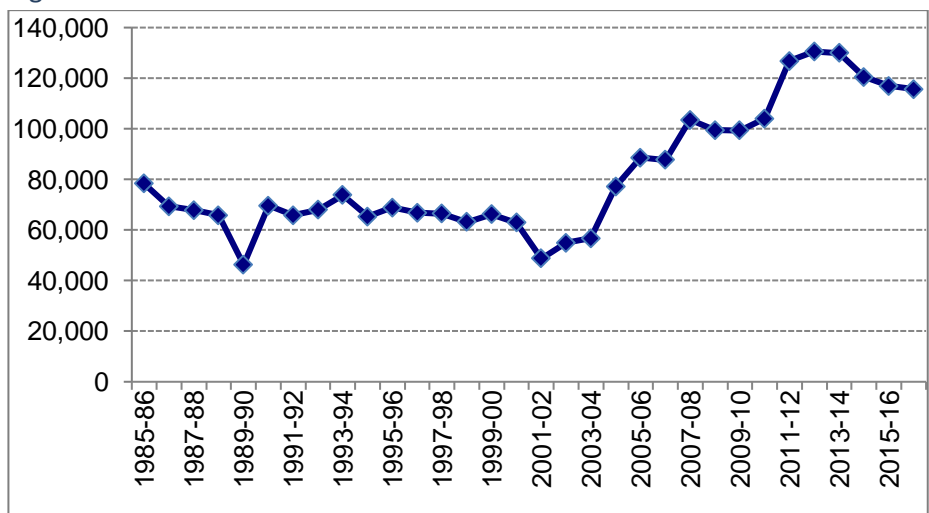


Figure A5.6- Kalgoorlie

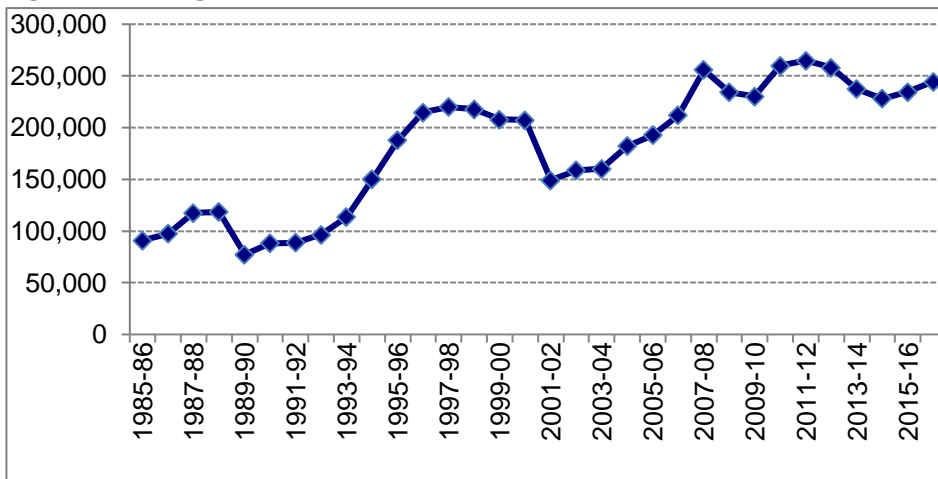


Figure A5.7- Karratha

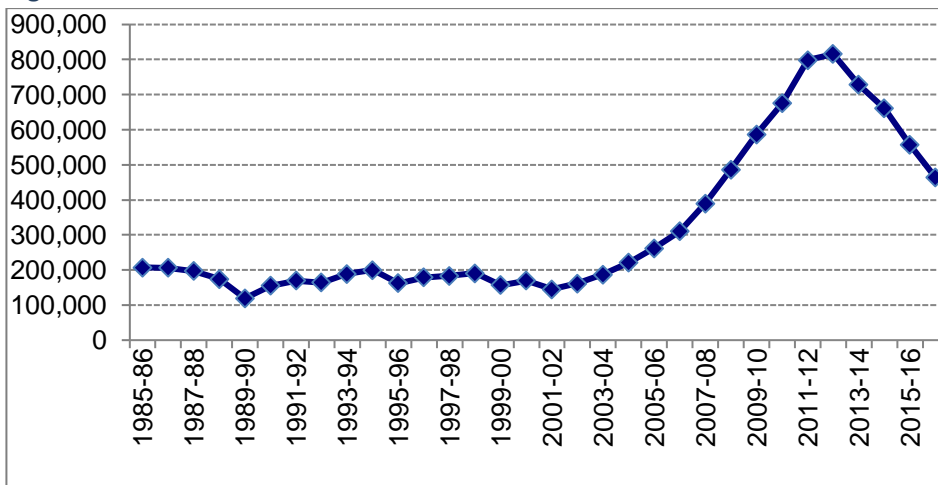
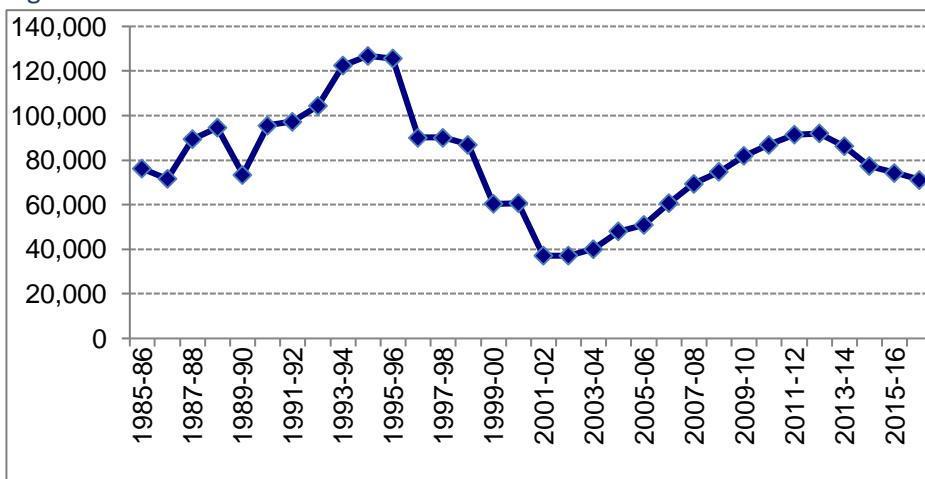


Figure A5.8- Kununurra



Appendix Five

Figure A5.9- Learmonth/Onslow

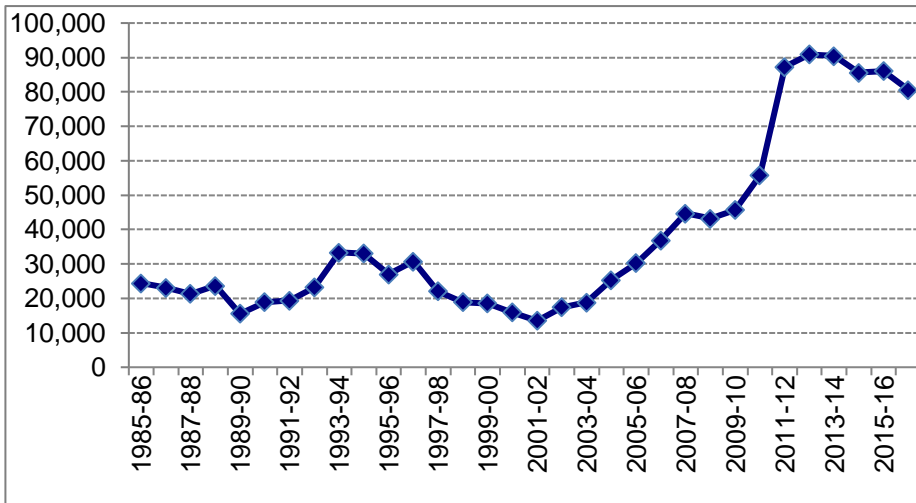


Figure A5.10- Newman

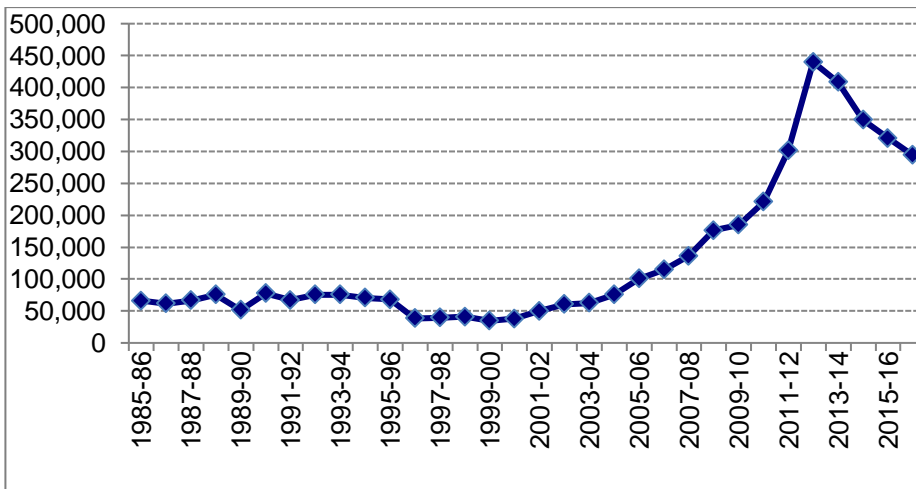
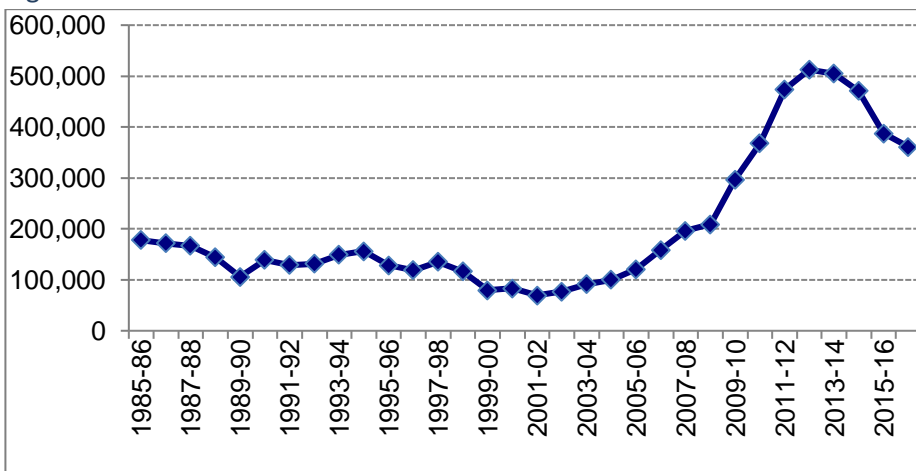


Figure A5.11- Port Hedland



Appendix Six

Department Of Transport Tender Process For Regulated Routes⁶¹⁵



Department of
Transport

Parliamentary Inquiry into Regional Airfares Summary of Tender Process

The Department of Transport exercises economic regulation of marginal Regular Public Transport (RPT) Air Routes throughout Western Australia by conditions on aircraft licences. To assist the ongoing viability of air services and to ensure that the best outcomes for regional communities is reached, the Department of Transport tenders the regulated air routes for a sole operator, that enables competition between airlines.

In 2015, the Department of Transport tendered the regulated air routes of Albany, Esperance, Carnarvon, Monkey Mia, Derby and the Northern Goldfields (Leonora, Laverton, Meekatharra, Mt Magnet and Wiluna). In 2017, the Department of Transport tendered the regulated air routes of Carnarvon, Monkey Mia and the Northern Goldfields.

The Tender is publicly released via Tenders Western Australia and all RPT airlines are notified of the release of the tender. The tender assesses three weighted criteria for future air services. The criteria reflect key requirements for community air services. The weighted criteria include:

- Air Service- 50%
 - Flight Timetable (number of services per week)
 - Fares and Charges
 - Maximum Airfare (including airport head taxes)
 - Indicative Average Airfare (Percentage of Maximum Airfare)
 - Frequent Flyer Programs
 - Flight Booking Systems and Global Distribution System
 - Customer Services (i.e. on board services)
 - Customer Service Procedures
 - Company Profile
 - Baggage Allowances
- Infrastructure Capability- 30%
 - Aircraft (i.e. seat capacity, age & aircraft type)
 - Airline Facilities at Airport
 - Terminal at Perth Airport
 - Disability Access (to aircraft and terminals)
 - Passenger, Baggage and Fuel Facilities
- Route Development and Community Engagement Plan- 20%
 - Stakeholder Engagement Plan
 - Route Development Plan

The tendering principles require a conforming proposal to be received. In the 2015 and 2017 tender processes a proposal was determined to be conforming if it operated:

- Using an aircraft capable of carrying more than the minimum passenger numbers and
- Provided services without a State Government subsidy.

The tender allowed for airlines to provide innovative solutions via alternative proposals to the Department of Transport. The Proponent was only able to submit an alternative proposal if they had submitted a conforming proposal.


The tender assessment committee representation included:

- Department of Transport
- Department of State Development
- Department of Regional Development
- Independent Aviation Consultant
- Tourism WA

An independent aviation economist is also contracted to provide expert aviation advice to the evaluation panel. An independent probity advisor is also appointed for the process to ensure that the probity of the tender process is run in line with State Government procurement policies and guidelines.

Appendix Seven

Summary Of Scope Of Minister For Transport Regulatory Powers⁶¹⁶



Department of
Transport

Parliamentary Inquiry into Regional Airfares
Summary of scope of Minister for Transport regulatory powers

Under the *Transport Coordination Act 1966*, the Minister for Transport has the ability to licence aircraft and place conditions on a licence.

An aircraft licence is required for all flights to or from the airports listed below:

Albany Airport	Halls Creek Airport	Meekatharra Airport
Broome International Airport	Kalbarri Airport	Mount Magnet Airport
Busselton Regional Airport	Kalgoorlie-Boulder Airport	Newman Airport
Carnarvon Airport	Kambalda Airport	Onslow Airport
Curtin Airport/ RAAF Airport	Karratha Airport	Paraburdoo Airport
Derby Airport	Kununurra Airport	Port Hedland International Airport
Esperance Airport	Laverton Airport	Ravensthorpe Airport
Fitzroy Crossing Airport	Learmonth Airport	Shark Bay Airport
Geraldton Airport	Leonora Airport	Wiluna Airport

The Minister for Transport, may in her discretion, attach to an aircraft licence all or any of the following conditions:

- a) The aircraft be operated only upon specified routes or in a specified area;
- b) Specified timetables be observed;
- c) Specified fares and freight rates be charged; and
- d) Prescribed records and statistics be kept and be supplied to the Director General of the Department of Transport;
- e) Such other conditions as she thinks fit to impose, in the public interest.

Under the *Transport Co-ordination Regulations 1985* the prescribed records include:

- For each calendar month, each route flown by the aircraft in the month and each class of fare (as determined by the licensee) sold in the month- the number of seats sold in the class, the average price and (where relevant) the average discount (as a percentage) applied to calculate the price;
- For each calendar month and each route flown by the aircraft in the month- the total net passenger revenue from, and the total operating costs of, operating the aircraft;
- For each calendar month and each destination to which the aircraft carried freight in the month- the weight of freight carried and the net freight revenue from carrying that freight;
- For each calendar month and each route flown by the aircraft in the month- the number of flying hours;

616 Submission No. 94A from Department of Transport, 1 November 2017, pp1-2.

Appendix Eight

Levels Of Regulatory Intervention Available To The State Government⁶¹⁷

Option	Objective	Description	Comments
Current (Hybrid) Model	Aims to ensure ongoing access for regional communities without unnecessary costs being imposed.	Uses a mix of all the options described in 1-4.	Limits regulation to 'thin markets' and single-operator routes. All others are duopoly routes.
1: No Regulation	Enable market competition without intervention and associated costs to Government and industry.	Applies to 10 RPT routes. Airlines have free access to any air route.	Enables airlines to respond to the market in a dynamic manner without constraints.
2: Low Regulation	Oversight of regional services through a requirement on airlines to provide operational data as a condition of licence.	Currently applies to Exmouth RPT route. Examples of data that could be required: average airfare, maximum airfare, fares paid in various fare classes, average load factors, on-time performance rates, flight schedules, luggage allowances, net passenger revenue and total operating costs.	The Government would have an increased understanding of operations on regional routes through improved transparency.

⁶¹⁷ Mr Steve Beyer, Acting Managing Director, Policy, Planning and Investment, Department of Transport, Letter, 14 November 2017, Attachment 1.

Appendix Eight

<p>3: Medium/ High Regulation</p>	<p>This approach would include an additional requirement for airlines to provide operational data as a condition of their licence.</p>	<p>Currently applies to 4 RPT routes. Regulation of routes through Deeds of Agreement following a competitive tender process. Two operators could be placed on a route with separate Deed Agreements. Operational data provided to DoT.</p>	<p>Imposes additional costs on airlines and additional Government resources are required to administer additional 10 routes. Resources companies may undertake their transport requirements through charter flights impacting the RPT services for regional community.</p>
<p>4: High Regulation</p>	<p>RPT air routes, where necessary, are provided with a Government subsidy to provide a given level of service and pricing.</p>	<p>Currently applies to Kununurra to Halls Creek and Perth to Derby RPT routes. All RPT air routes are regulated through Deed Agreements.</p>	<p>The cost to Government could be substantial. Queensland Government cost of subsidising air routes was \$7.7million (for 2016-17). DoT resources would significantly increase. The responsibility of meeting community/ customer expectations moves from the airline to the Government.</p>

Appendix Nine

Committee's Functions And Powers

The functions of the Committee are to review and report to the Assembly on: -

- a) the outcomes and administration of the departments within the Committee's portfolio responsibilities;
- b) annual reports of government departments laid on the Table of the House;
- c) the adequacy of legislation and regulations within its jurisdiction; and
- d) any matters referred to it by the Assembly including a bill, motion, petition, vote or expenditure, other financial matter, report or paper.

At the commencement of each Parliament and as often thereafter as the Speaker considers necessary, the Speaker will determine and table a schedule showing the portfolio responsibilities for each committee. Annual reports of government departments and authorities tabled in the Assembly will stand referred to the relevant committee for any inquiry the committee may make.

Whenever a committee receives or determines for itself fresh or amended terms of reference, the committee will forward them to each standing and select committee of the Assembly and Joint Committee of the Assembly and Council. The Speaker will announce them to the Assembly at the next opportunity and arrange for them to be placed on the notice boards of the Assembly.