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Dr David Worth
Principal Research Officer
Economic and Industry Standing Committee

laeisc@parliament.wa.gov.au

Dear Dr Worth

INPEX Submission to inquiry into regional airfares in Western Australia

This submission to the inquiry into regional airfares in Western Australia is made by INPEX Operations Australia Pty Ltd on behalf of the Ichthys LNG Project Joint Venture.

INPEX Operations Australia Pty Ltd and the Ichthys LNG Project here after will be referred to as INPEX.

INPEX welcomes the inquiry into regional airfares in Western Australia. We understand that the inquiry has been established to evaluate the high cost of regional airfares in Western Australia and possible actions that can be taken to limit these high costs.

Broome is an important logistics support hub for INPEX and is the main transit point for workers travelling to Ichthys Project offshore facilities in the Browse Basin.

INPEX recognises that Broome is a remote location and that air access is critical for the region from a business, social and tourism perspective. The high costs of airfare to travel to and from Broome is a significant expense for tourists, businesses, local citizens and oil and gas operators like INPEX.

This submission will provide the Committee an understanding of INPEX's position on regional airfares and our use of the Perth to Broome route.

INPEX is committed to supporting the communities where we operate and we look forward to contributing to the inquiry and learning its outcomes.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Bill Townsend", with a stylized flourish at the end.

Bill Townsend
General Manager External Affairs and Joint Venture

Background

INPEX CORPORATION is a global oil and gas Exploration & Production (E&P) company that is listed on the Tokyo Stock Exchange and is owned 18.9 percent by the Japanese Government. As the Japanese national flag oil and gas company, INPEX's mission is to provide a stable and efficient supply of energy to our customers by exploring and developing oil and natural gas resources throughout the world. Through our business, we aim to become an integrated energy company, which contributes to the community and makes it more liveable and prosperous. INPEX currently participates in more than 70 oil and gas projects spanning more than 20 countries.

Ichthys LNG Project

In Australia, INPEX is widely known as the operator of the world-class Ichthys LNG Project currently under construction. INPEX maintains a 62.245 percent stake in the Ichthys Project.

The Ichthys Field, located in license areas WA-50/51-L, is a gas-condensate field situated in the Browse Basin approximately 220 kilometres off the Western Australian coast and some 475 kilometres northeast of Broome.

In January 2012, INPEX and its sole joint venture participant at the time, Total, made a Final Investment Decision (FID) to develop the Ichthys LNG Project. The approved project is effectively three mega-projects in one with massive offshore facilities in the Browse Basin, state-of-the-art onshore processing facilities in Darwin and an 890 kilometre subsea gas export pipeline linking the two. Ichthys represents one of the largest and most complex oil and gas developments in the world.

The Ichthys LNG Project is expected to produce up to 8.9 million tons of LNG and 1.6 million tons of LPG per annum, along with approximately 100,000 barrels of condensate per day at peak. At FID, the estimated cost to develop the Ichthys Project amounted to US\$34 billion. INPEX's share of the development costs represents not only the single biggest investment by a Japanese company into Australia, but the largest ever overseas investment by a Japanese company. Once in production, the Ichthys Project will make a significant contribution to Australia's economic prosperity over its projected 40-year operating life.

INPEX is currently drilling production wells in the Ichthys Field utilising Broome as the logistics hub for port and helicopter transfers. The Ichthys LNG Project's full field development plan calls for a total of 50 wells to be drilled over the life of the Project. We expect to continue utilising Broome airport, supply base and Broome port as our primary drilling logistics support location.

Overview of INPEX aviation operations in Western Australia

Broome is an important logistics hub for the Ichthys LNG Project (Project) located 475km southwest of the Ichthys Field.

Broome is the closest regional centre to the Field. Broome offers an airport with regular passenger transport (RPT) connections to Perth and has established facilities to support heavy helicopter operations which are required to transport workers to facilities and vessels located offshore.

INPEX is at present the largest user of the Broome International Airport heliport with two helicopter contractors based in Broome supporting the Ichthys Project.

To enable workers coming from offshore facilities to transfer to afternoon RPT flights to Perth, helicopter flights depart to the Field in the early morning to enable them to return by midday. Returning workers are then transferred to the next available RPT flight to Perth.

The majority of workers travelling offshore travel to Broome the day prior to their scheduled early morning departure and overnight in local Broome hotels before catching an early morning flight offshore.

The return helicopter flight time from Broome to the Field is approximately four and half hours.

Since the commencement of the offshore development drilling campaign for INPEX in February 2015, the average capacity on the Perth to Broome route¹ has operated at approximately 71.4% capacity, with the tourism season² averaging 81.8% capacity.

In a recent presentation by the CEO of Broome International Airport,³ Paul Mc Sweeney at an INPEX Aviation Information Session he stated that the demographic of passengers using Broome International Airport was:

- 34% - Business and Heliport usage, (primarily the oil and gas sector);
- 46% - Tourism; and
- 20% - Locals.

The Airport also reported that there had been a decline in passenger numbers over a three year period:

- 394,200 passengers in 2014/2015;
- 378,459 passengers in 2015/2016; and
- ~370,000 passengers forecast in 2016/2017

INPEX and its contractors use both Virgin Australia and Qantas and have no exclusivity agreements with any operator. All RPT reservations are booked through third party travel agencies and INPEX engages with both airlines to provide regular updates of future travel demands of the Project to enable carriers to manage capacity on the route.

INPEX 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.

On 29 May 2017, the Project commenced the hook-up and commissioning of offshore facilities in the Field. This large-scale phase of work will take place over several months and will require up to 2000 workers offshore at peak to complete various scopes of work. Virtually all of these workers will transit through Broome.

To mitigate impacts from this increased movement of workers, including on the tourism industry, INPEX has worked with the airlines to increase capacity on the route. This has resulted in additional flights being added into Broome on certain days and/or arranging for larger aircraft to be used on the route. Additionally, INPEX has been chartering flights at points of peak workforce travel demand.

To this end, INPEX has regularly consulted with the representative bodies of the tourism and business sector in Broome to better understand and manage the businesses impact on capacity during the 2017 tourist season.

Aircraft have been chartered by INPEX during periods of increased general demand on the route, or when offshore activities require us to mobilise large numbers of workers. As of 31 July 2017, INPEX had chartered aircraft on three occasions (return flights) to mobilise workers to and from Broome.

¹ Australian Domestic Airline Activity—time series ISSN: 1832-1968 Release Date: July 2017

² June to August 2015 and 2016

³ INPEX Aviation Information session 25 May 2017 - BIA Broome Passenger Demographics 2011-2016

INPEX is subject to price volatility and capacity issues on the Perth to Broome route. For example between 1-13 July 2017 during the school holiday peak in Broome, INPEX had 40-45 passengers per day reserved on flights between Broome and Perth (out of a total of approximately 600 seats). Due to lack of capacity over the preceding three days, INPEX chartered an aircraft to ease the load on commercial bookings. We also worked with Virgin Australia to reroute an aircraft from Newman to collect additional passengers in Broome.

This action by INPEX released approximately 120 seats into the market. INPEX has made similar arrangements for August 2017 in consultation with the airlines and local stakeholders. We will continue to take proactive steps to ease demand on commercial capacity on the route for the remainder of the tourism season. Our plans also take into consideration peak tourist events in Broome such as Broome Cup and Shinju Matsuri.

As the Ichthys Project transitions into the operational phase, there will be a significantly lower number of workers transiting through Broome. A majority of airfares will be reserved in advance as the workforce enters a steady work cycle roster.

Regional airline suppliers and pricing

As a major user of both Qantas and Virgin Australia Broome-Perth routes, it should be noted INPEX is a price-taker. As such, INPEX does not have any control or influence over airline pricing. The pricing structures are set exclusively by the airlines.

Contribution to the regional economy through regional flights

INPEX as Operator of Ichthys LNG Project is making a significantly positive impact on the Broome economy. As evidence of this, we are today the largest user of the Broome Airport and Broome Port.

The use of the Broome-Perth airport route by INPEX is helping to balance out the fluctuating highs and lows of the Broome economy that heavily relies on tourism. INPEX's use of regional flights and our investment in Broome, delivers value through:

- Increased use of accommodation in Broome hotels;
- Utilisation of local restaurants and cafes by project workers;
- Engagement of more than 35 local Broome businesses (see Appendix A);
- Employment of approximately 100 local workers to support Project-related activities;
- Major investor in the GE Supply Base and the Toll Mermaid Drilling base in Broome;
- Major user of the Djaradjin community's refuelling airbase in the Kimberley, that employs up to 15 local Aboriginal workers;
- Investor in a broad range of corporate socially responsible programs in the Kimberley region including;
 - Kimberley Foundation Australia (rock art research)
 - Nirrumbuk Aboriginal Corporation (education, training and mentoring support)
 - Shinju Matsuri Broome Festival
 - Shire of Derby Kimberly Art Prize
 - Association for Northern Kimberley and Arnhem Aboriginal Artists
 - Cable Beach and Roebuck Bay primary schools and North Regional TAFE

In summary, we believe that INPEX is striking the right balance between underpinning the Broome economy, while also taking active measures to avoid negative impacts on the local community and tourism market. This includes good communication with the airlines

to assist in their planning and the chartering of aircraft at times when we are required to mobilise large numbers of personnel.

1.1 Marine – Port of Broome

A range of service and supply logistics for the Project's offshore activities will be delivered through the Port of Broome, supporting the development drilling program and umbilicals, risers and flowlines (URF) installation.

All stevedoring activities at the Port of Broome will be operated by the Kimberley Port Authority, as per standard practice.

1.2 Toll Logistics Supply Base

INPEX has contracted Toll to deliver service and supply activities in support of the Project's offshore drilling program.

In support of this contract, Toll has established a purpose-built logistics supply base on the outskirts of the Port of Broome precinct. Approximately 12 people are locally engaged by Toll to support the Ichthys Project.

The drilling program's single MODU, the ENSCO 5006, is supported by three vessels that operate out of Broome port.

1.3 CIVMEC and MI-SWACO

CIVMEC has been directly contracted by ENSCO for equipment and provision for the operations of the ENSCO 5006.

MI-SWACO provides drilling mud and other chemicals to support the Ichthys drilling program.

Both facilities are located in the Port precinct.

1.4 GE Oil and Gas supply facility

GE Oil and Gas has established a logistics supply facility in Broome's industrial area in support of its contract to service and supply subsea equipment for the Project and other oil and gas opportunities. GE has employed seven locally based personnel for its supply base operations. Two INPEX staff members are based at the facility.

1.5 Regal Transport and Wilhelmsen Ships Service

Logistical service and supply support for the McDermott URF package is supported through the Port of Broome and locally based shipping agent Wilhelmsen Ships Service and logistics through Regal Transport

1.6 Aviation – Broome International Airport (BIA)

Broome International Airport (BIA) is the transfer point for the offshore workforce.

Ichthys Project contracted helicopters operate daily with a majority of flights operating in the morning to accommodate helicopter travel times and fixed wing connections back to Perth.

All inbound and outbound personnel will transit to and from Broome on regular passenger flights.

1.6.1 Bristow and PHI-HNZ

Both companies provide s-92 helicopter to services the Ichthys LNG Project.

Pilots and Engineers rotate through Broome supported by a crew of locally engaged ramp and operations staff.

1.7 Oil Field Transport Services (OTS)

OTS is a locally based trucking company who provides a fleet of trucks and trailer to transport materials for the Ichthys Project in Broome.

1.8 Oaks Hotels

There are two Oaks hotels based in Broome:

Oaks Broome

Accommodation for overnight transiting workers and some contractor staff in particular PHI-HNZ helicopters

Oaks Cable Beach

Accommodation for INPEX drilling site representatives and crew for Bristow Helicopters

1.9 Broome Transit

Broome Transit is part of Broome Taxis. Broome Transit provides buses to transport workers from Broome International Airport to Oaks Hotel and to the Heliport in the mornings.

1.10 Tox Free

Tox Free are the locally based waste disposal contractor for the Ichthys Project in particular for drilling.