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Dr David Worth
Principal Research Officer
Parliament House
Perth WA 6000

Dear Dr Worth,

Inquiry into regional airfares in Western Australia

Thank you for the opportunity to provide a submission to the Economic and Industry Standing Committee's inquiry into regional airfares in Western Australia.

I represent the Western Australian Regional Capitals Alliance (WARCA), which is formed by 10 of the largest local government authorities in regional Western Australia:

- City of Albany
- Shire of Broome
- City of Bunbury
- City of Busselton
- Shire of Esperance
- City of Greater Geraldton
- City of Kalgoorlie Boulder
- City of Karratha
- Town of Port Hedland
- Shire of Northam

These authorities have addressed each of the items in the terms of reference and a summary of their submission is attached to this letter. Enquiries for further information regarding this submission can be made to:

Paul Rosair, Executive Officer to WARCA, on 0419 930 467 or paul@naja.com.au

Yours faithfully



Peter Long
Chairman WARCA

28 July 2017

Western Australian Regional Capitals Alliance (WARCA)

Background

The Western Australian Regional Capitals Alliance (WARCA) is a partnership of 10 of the largest regional local government authorities in regional Western Australia.

Each local government authority provides an important role in providing goods and services, employment and connectivity to their own and neighbouring regions.

WARCA provides strategic advice to government on the social and economic issues impacting on, and often unique to, regional locations. WARCA advocates for fair consideration of these needs at a State and Federal level – that legislation, policy, planning, strategy and investment matches the growth needs of the regions and builds thriving regional communities

In the 2016 census WARCA was home to over 250,000 people and growing much faster than Australia and also Western Australia overall. A large number of long distance commuting workers, approximately another 25 per cent, travel to and from WARCA communities for work, particularly in the resources sector.

Collectively, the regional capitals are the most significant concentrations of employment in non-metropolitan Western Australia, adding more than 23,000 direct jobs to the Western Australia economy over the last decade producing 5.2-billion-dollars of assets.

They are diverse economies, providing a pivotal connectivity function with neighbouring local government authorities, and in some cases, engagement with the global economy.

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA SUMMARY OF WESTERN AUSTRALIAN REGIONAL CAPITALS ALLIANCE (WARCA) RESPONSES AGAINST THE TERMS OF REFERENCE

1. FACTORS CONTRIBUTING TO THE CURRENT HIGH COST OF REGIONAL AIRFARES

- 1.1 Lack of passenger volume;
- 1.2 A high proportion of airport operating costs are fixed regardless of the number of aircraft and passengers that utilise the facility. Expense such as capital renewal, maintenance, security and compliance activities have to be recovered from a relatively small number of passengers and aircraft movements. Private airports built within 50-100km of existing facilities limit growth and therefore opportunities for efficiency through economies of scale are lost.
- 1.3 Airport charges are often quoted as being a significant contributing factor to the cost of airfares. While acknowledging that regional airport costs are higher in WA than in some other areas, it should be noted that:
 - Airport related charges rarely make up greater than 10% of the standard cost of an airfare that a passenger pays.
 - Much of the airport charging relates generating a return on asset and/or recovering compliance costs associated with operating an airfield.
- 1.4 Lack of competition – often due to a duopoly market.
- 1.5 The lack of a regional hub airports means that all passengers are flown through Perth regardless of their final destination. This results in numerous long and thin routes served by older, low capacity aircraft such as the F100 or B717.
- 1.6 Demand at different times of the day can be unidirectional. This results in empty flights in one direction.
- 1.7 Large companies buy out seats well in advance leaving very few cheap fares available for leisure and tourism travel.
- 1.8 At times, discounted flights for an onward journey includes a stopover in a WA regional town which takes up the cheaper fare seat allocation. This reduces the chances of regional residents taking advantage of the cheaper fare and consequently this forces them to pay exorbitant prices.
- 1.9 Availability and cost of fuel at different airports where refuelling is required.
- 1.10 Whether or not a service requires overnighting (with associated costs of aircraft and crew)
- 1.11 High cost and operation of mandatory security screening equipment at regional airports

2. IMPACTS THAT HIGH-COST REGIONAL AIRFARES HAVE ON REGIONAL CENTRES - FROM A BUSINESS, TOURISM AND SOCIAL PERSPECTIVE;

- 2.1 Fewer people flying to regional WA 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 the towns, the region and the State of WA.
- 2.2 High regional WA fares make inbound tourism an irrational choice when Australians can fly Perth/Bali or Singapore return for half the cost of a Perth/Port Hedland return flight.
- 2.3 As an overarching statement, high cost regional airfares are limiting the growth of the City and the ability for the area to attract and retain residents.
- 2.4 High regional airfares make it difficult to attract and retain people in the region. Although the regions provide excellent facilities and events there is still a desire for travel to attend large events such as the AFL, musicals, festivals and concerts. Likewise, families may need to access medical facilities or opt for private schooling. This makes the proposition of living in regional towns less financially viable or attractive when regular travel is required.
- 2.5 Local sporting and cultural events rarely attract significant numbers outside of local/regional communities, difficulty and cost for intraregional travel is a barrier to providing these events.
- 2.6 Limits ability to access professional development, training, conferences etc. in the metropolitan area, and lack of video conferencing opportunities
- 2.7 Increases cost for residents to access health services in the metro area, particularly when the full cost of service is not subsidised by the state
- 2.8 Cost of air travel at peak periods (E.g. Christmas, Easter, public holidays, school holidays) often makes regional travel unaffordable
- 2.9 Increases isolation of regional towns
- 2.10 Increased costs of boarding school or remote schooling, especially when children return home at peak periods (e.g. school holidays)
- 2.11 Increases costs of conducting business in remote areas. High travel costs reduce business development and investment opportunities
- 2.12 Holiday and leisure travel is currently very low. More competitive airfares would stimulate new visitor market growth and open up new opportunities for travel packaging and marketing.
- 2.13 Infrequent and non-direct routes resulting in additional accommodation, car hire and meal costs to travellers.
- 2.14 High cost of airfares means more road travel as a preferred option resulting in additional safety risks associated with long distance road travel.

3. IMPACT OF STATE GOVERNMENT REGULATORY PROCESSES ON THE COST AND EFFICIENCY OF REGIONAL AIR SERVICES

- 3.1 State Government regulatory powers over RPT services are relative limited – largely confined to regulatory oversight and local control over Intrastate RPT passenger services via licensing of carrier access to particular routes. Aviation-proper is a Federal domain. The Commonwealth, not the States, issues RPT operator licences. CASA, OTS and Air Services administer, oversee and service Aviation – not the States.
- 3.2 Costs of Airlines operating through Perth Airport have a direct impact on the cost of Regional airfares in WA. Those costs include Federal fees and charges paid by airlines, and the fees and charges on Airlines by Perth Airport.
- 3.3 The current regulated route agreement provides certainty over service frequency some routes for the next 4 years however excludes the opportunity for a second operator to enter the market which would lead to greater price competition.
- 3.4 The adverse impacts experienced in the regulatory processes could be mitigated somewhat by closer involvement of regional capitals in the aircraft operator in the regulated air routes selection process.
- 3.5 Proliferation of inefficient airfield infrastructure with multiple airfields capable of landing jet aircraft being developed within close proximity to existing RPT airfields.
- 3.6 All air traffic being diverted through Perth and consequential inefficiencies for individuals, organisations and the public sector when doing business. Intra-regional air subsidies between major RPT airfield should be considered.
- 3.7 Higher cost structures and fees per passenger due to many smaller airports being utilised.
- 3.8 Federal Government regulatory processes and associated costs have a much more significant impact on the cost of services from an operator's perspective. RPT services using aircraft > 20,000kgs require security screening which include infrastructure and ongoing operational costs which the Airport operator usually pass directly onto the airlines

4. ACTIONS THAT THE STATE AND LOCAL GOVERNMENT AUTHORITIES CAN TAKE TO LIMIT INCREASES IN AIRFARES WITHOUT UNDERMINING THE COMMERCIAL VIABILITY OF RPT SERVICES

- 4.1 Airport operators (particularly regional airports) need to charge landing fees and passenger fees to cover their direct operational costs and where (if) possible ongoing maintenance /asset renewal to limit the cost to rate payers. While WA does have the DOT Regional Airport Development Scheme (RADS) which funds aviation infrastructure, the RAD Scheme is limited each year and cannot meet the value of funding requests received. Hence, the operational costs and infrastructure costs fall back on the local government. If Airport operator costs are considered to influence airline /airfares, then financial support for infrastructure projects may be able to keep landing fees and passenger fees at a minimum.
- 4.2 State Government could increase Grants for capital expansions to increase capacity of regional airports – could allow for increased cargo at reduced cost
- 4.3 The State and Local government authorities can legislate that the cost of a regular public transport (RPT) fare does not deviate from the weighted average economy fare provided to the four largest buyers (based on airline seats purchased from Qantas/Network Aviation/Virgin/VARA over the prior 6 months) on each WA regional route.
- 4.4 Support for regional hubs and inter-regional travel will also increase passenger throughput at regional airports. This will subsequently reduce airport charges per passenger. Industry and government win with this strategy by not having the expense and time of routing through Perth for what is essentially could/should be short haul flights.
- 4.5 The State Government could incentivise the growth of lower volume routes by introducing a sliding scale that provides greater financial incentives for the major operators to include the lower volume WA routes.
- 4.6 In the context of easing demands on State finances for capital assistance for regional airports, the State Aviation Strategy advocates greater participation by the private sector in the ownership and/or operation of regional airports. The fundamental problem is that the exception of the larger regional airports with significant passenger and aircraft movement numbers, few of the remaining regional airports in WA generate sufficient revenue to be commercially attractive to the private sector.

- 4.7 Only a small minority of regional airports in WA operate at a true commercial or commercial-equivalent operating profit, including full recovery of capital costs enabling provision of funds for capital asset renewal. The majority of regional airports in WA operate at a real accounting loss. As is the case nationally (as reported by the AAA) 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.
- 4.8 Recognition could be given to regional airports who provide free or reduced landing charges for emergency aircraft, royal flying doctor service, military and immigration aircraft and in some cases light aviation and training. These are benefits that tend to be underwritten by the local communities but provide a network or base for the operation of predominately services that are realistically the domain of state or federal governments.

5. ACTIONS THAT AIRLINES CAN TAKE TO LIMIT INCREASES TO AIRFARES WITHOUT UNDERMINING THE COMMERCIAL VIABILITY OF RPT SERVICES

- 5.1 Airlines should be encouraged to grow RPT markets across all WA regional routes as unfortunately the major aircraft operators do not see the smaller regional WA routes as worth their time and effort.
- 5.2 Provide route subsidies that enable a range of towns to have a suitably sized air service and link into regional cities
- 5.3 Provide retail airfares that are in line with what the large corporates are able to negotiate.
- 5.4 Offer seats at a range of prices (ensuring a set number of low cost seats)
- 5.5 Cap the extreme fares that result from yield management pricing strategies and affect mostly local people needing last minute fares.

6. RECENT ACTIONS TAKEN BY OTHER AUSTRALIAN GOVERNMENTS TO LIMIT REGIONAL RPT AIRFARE INCREASES

No comments provided