

## ***Inquiry into Regional Airfares in Western Australia - August 2017***

### **Presentation notes – Terry Hill (Pilbara Development Commission)**

#### **Background**

##### *The Pilbara Development Commission*

The Pilbara Development Commission (Commission) – The Commission was established under the *Regional Development Commissions Act 1993*, it is a statutory authority. The Act established the Commissions to coordinate and promote economic development to maximise prosperity and well-being for the regions, and for Western Australia.

The Commission has a Board, 17 staff and 3 offices, Karratha, Port Hedland and Perth. It is responsible to the Minister for Regional Development, the Hon, Alannah MacTiernan MLC. I am the CEO of the Commission and live in the Pilbara, based in Karratha.

The recent Machinery of Government changes has resulted in the Commission continuing, with the majority of staff being amalgamated into the newly formed Department of Primary industry and Regional Development (DPIRD).

The Commission objectives under the Act are to –

- Maximise job creation and improve career opportunities in the region;
- Develop and broaden the economic base of the region;
- Identify infrastructure services to promote economic and social development within the region;
- Provide information and advice to promote business development within the region
- Seek to ensure that the general standard of government services and access to those services in the region is comparable to that which applies in the metropolitan area; and
- Generally take steps to encourage, promote, facilitate and monitor the economic development in the region.

We have broad functions in relation to the economic and social development outcomes for the region. To achieve this we work with all levels of government, industry and community. The role is a 'catalytic' one and we seek to partner, influence and collaborate to achieve these objectives. In the case of regional air services and costs, we do not have a regulatory or statutory role. We work with other government departments who have the technical knowledge and statutory powers.

The Commission provided its contribution to the submission made to DPIRD. Today I will provide information that is more detailed in relation to the Pilbara region.

#### ***Key Messages***

- The Pilbara region is an important region to the State and National economy.
- It is a large region which is distant from the nearest major city. Affordable airfares are critical from a regional development perspective. This is from the 'liveability' and the ability to attract people to live and stay in the region. It is also important in relation to the 'cost of doing business in the region'. Building a more diverse economy being considered a high priority for the region.
- Airfare costs in the region are considered to be high (State Aviation Strategy) this then can be seen as a constraint to the regions development.

## ***The Pilbara Region***

The Pilbara accounts for 20% of the State's total land mass. It is a geographically large region and equates to two thirds of the area of New South Wales, and twice the size of Victoria. There are four local governments – City of Karratha, Town of Port Hedland, Shires of East Pilbara and Ashburton.

The Pilbara region is home to 59,559 residents, an increase of more than 10,000 since 2006.

## ***Airports***

There are five RPT airports – Onslow, Paraburdoo, Newman, Karratha and Port Hedland

Passenger movements are as follows for 2016 –

<b>Passengers (Regular Public Transport operations)</b>	
KARRATHA	494,894
NEWMAN	309,360
PARABURDOO	164,110
PORT HEDLAND	364,024
<b>Grand Total</b>	<b>1,332,388</b>

Source:

The Bureau of Infrastructure, Transport and Regional Economics (BITRE)

There are 13 other certified non-government operated airports in the Pilbara, and this includes Paraburdoo. Certification means the level of service is RPT or frequent charter with more than 30 passengers.

## ***The Economy***

The economy of the region is dominated by the resources sector. The Pilbara produces 95% of the value of Western Australia's iron ore production. Western Australia is the world's largest iron ore producer, accounting for 37% of world production and 52% of world seaborne exports in 2015. This domination is likely to continue with planned growth as follows -

- CITIC Pacific's Sino Iron (28mtpa) and Hancock Prospecting's Roy Hill (55mtpa) projects are ramping up production.
- Rio Tinto is developing Yandicoogina/Oxbow, West Angelas F, Silvergrass and Nammuldi deposits (over 40mtpa), and proposing to develop the Koodaideri deposit (40mtpa) by 2021, to utilise newly installed infrastructure.
- BHP is ramping up the Jumblebar mine and optimising its supply chain to raise output. It is proposing to develop the South Flank deposit to replace Yandi mine production by 2021 (80mtpa).
- FMG needs to replace Firetail mine production by 2021 (23mtpa).
- The BBI Group proposal – mine, port and rail at Balla Balla.

The region also has a significant and growing LNG sector. Western Australia is the world's third largest LNG exporter behind Qatar (80mt) and Malaysia (25mt), accounting for 9% (24mt) of global LNG exports of 264 million tonnes in 2016. Western Australia's LNG production capacity will grow from 27 million tonnes a year in 2015-16 to 49.9 million tonnes a year when the Gorgon, Wheatstone and Prelude projects are complete in 2017-18.

The following table is extracted from the Western Australian economic profile for July 2017 (Department of Jobs, Tourism, Science and Innovation).

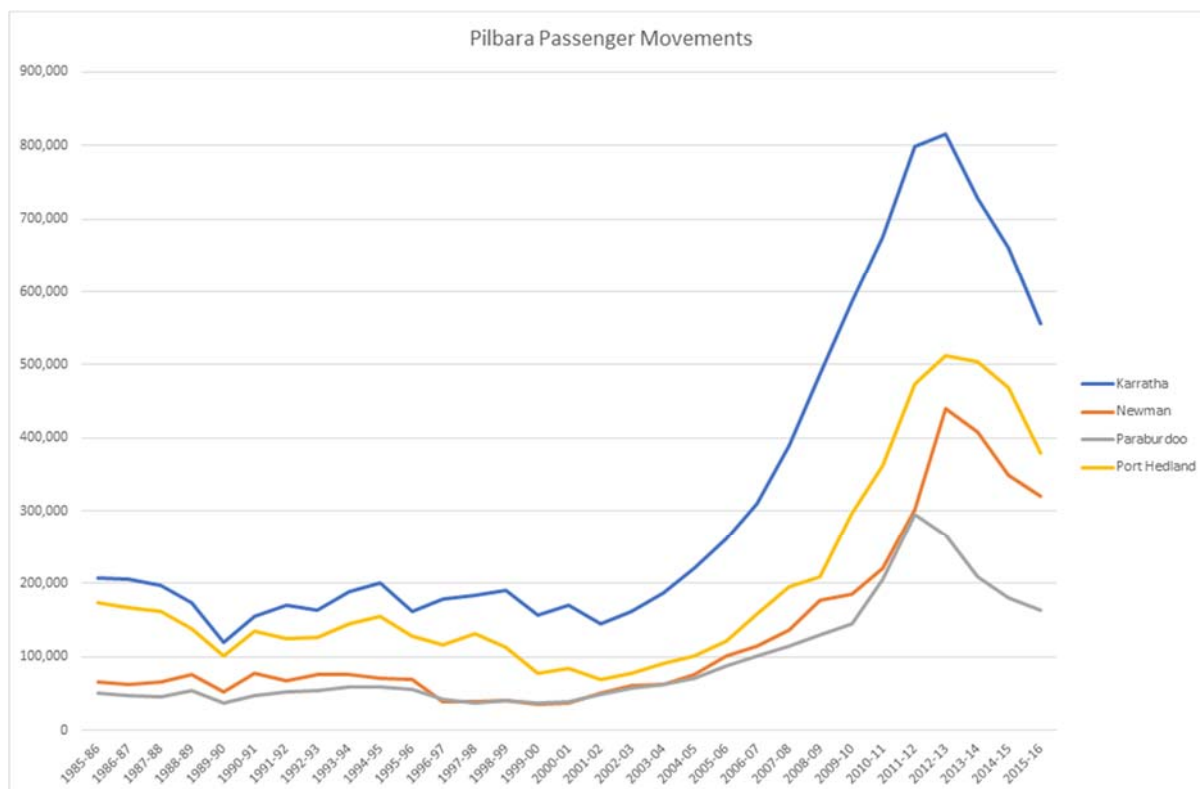
Pilbara (including offshore)		Annual (quarterly) change			Share
Population: 2015-16	61,435	-1,533	-2.4%		2.4%
Employed: MarQ17	49,872	+2,531	+5.3%	(+1.3%)	3.7%
Unemployed: MarQ17	1,121	-342	-23.4%	(-8.1%)	1.3%
Unemployment rate: MarQ17	2.2%	-0.8pp	(-0.2pp)		
Mineral & petroleum sales: 2016	\$70.9b	+\$1.4b	+2.0%		
Agricultural production: 2010-11	\$61m				1.1%

There is a significant group of transient workers who travel to and from the Pilbara on a regular basis supporting the resources sector. The current estimation of the number of transient workers operating in the Pilbara is dated, as it is extracted from the 2011 census data and date from the current census is not yet available. If the data extrapolated to each worker being on a 2:1 swing, it indicates approximately 600,000 passenger movements are attributable to this sector of the workforce. There would then be the other Perth based staff of the resource companies who regularly travel to the region. This demonstrates that the transient workers make a significant impact on the seats and flights to the region.

	Work in Pilbara Region	Work and live in Pilbara Region
Mining	18500	9790
Construction	8404	4041
Accommodation & Food Services	2467	1486
Transport, Postal & Warehousing	2354	1461
Education & Training	1527	1396
Manufacturing	1445	1263
Health Care & Social Assistance	1424	1237
Administrative & Support Services	1380	1170
Public Administration & Safety	1369	895
Professional, Scientific & Technical Services	1366	867
Retail Trade	1349	777
Other Services	1101	722
Rental, Hiring & Real Estate Services	689	546
Wholesale Trade	626	449
Electricity, Gas, Water & Waste Services	456	298
Agriculture, Forestry & Fishing	163	133
Financial & Insurance Services	144	116
Arts & Recreation Services	99	85
Information Media & Telecommunications	93	63

Other	0	0
<b>Total</b>	<b>44956</b>	<b>26795</b>

The increase in passenger movements as a result of the major growth in the resources sector is shown in the graph following -



### ***Developing a more diverse economy***

The Commission carried out a significant process of community, government and industry consultation and engagement in 2015, to prepare a regionally owned vision and subsequent strategies to drive the future of the region. This culminated in the development of the “Pilbara Regional Investment Blueprint”. The Blueprint identifies a number of sector opportunities for the economy. These include tourism, agriculture, aquaculture, SME’s and new energy.

The high cost of regional airfares impacts on the development of other sectors in the Pilbara economy. The Western Australian State Aviation strategy states –

“Tourism and aviation route development - The tourism industry is, to some degree, being crowded out by the growth in the resources industry. The strength of the resource industry is resulting in very high accommodation and hospitality prices. While the impact of this effect is strong in Perth, it is particularly acute in the Pilbara region. Tourism in the Pilbara faces the dual effect of particularly high airfares and accommodation shortages and is in decline.”

High airfares are considered by many to be a significant barrier to regional tourism. In a perception survey of the Pilbara as a tourism destination completed recently by Tourism WA, people surveyed indicated that they considered high airfares as an issue for the Pilbara. The scale of the barrier has not been objectively quantified.

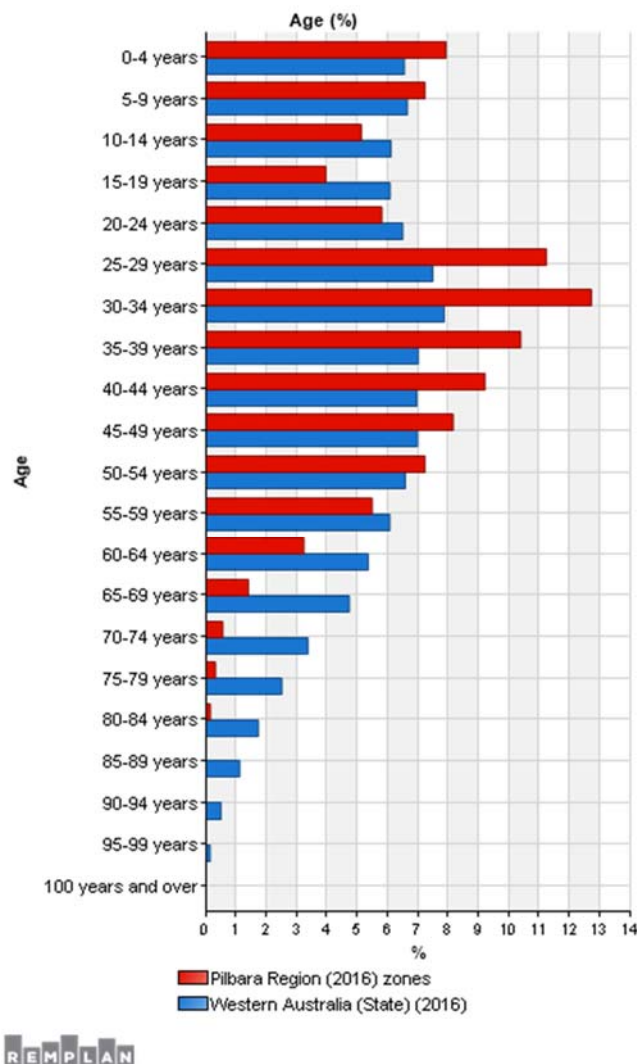
## Government

The Western Australian government is a significant user of air services in the region. The high cost of airfares impacts on the cost of doing business for the Western Australian State government.

An example of a significant government user of air services in the region is the Western Australian Country Health Services (WACHS). WACHS data indicates that the Patient Assisted Travel Scheme (PATS) pays for at least 1600 return flight per year from the Pilbara to Perth. If the flights are \$1200 each then this is \$1.92 million. Additionally, WACHS information indicates that specialist medical services to the Pilbara (262 flights at \$1200 each) costs \$314,000.

## Community

In the recent census data the relatively 'young' demographic of the Pilbara was highlighted (see graph). There are a large number of young people and families, who call the Pilbara home. The data also highlights the lower than average number of people who are over 55. The assumption can be drawn from this data that for many families, parents and grandparents are likely to reside outside of the region. This is important to consider in developing the Pilbara community as a place people choose to live, it is likely that families will use air travel to maintain family links.



Affordable regional air travel is a key component of the social/community fabric of the regions. Residents have an expectation that they can access affordable air travel for a range of personal reasons. In listening to the community there is periodically 'outrage' expressed at the high cost of

airfares where an individual or family needs to fly from the region at short notice and airfares are extremely high. On particular days of the week when there are resource sector 'change over days' and there is a strong demand for seats, there are examples where a one way fare at over \$1,000 is the only option. An example is a Newman to Perth fare at \$1014 on 30<sup>th</sup> August.

It should also be noted that when booking fares well in advance or when there are 'sales' there are opportunities for accessing lower fares. Virgin Australia are offering discount airfares today (23/8/2017) for bookings between the 10<sup>th</sup> January to the 21 March 2018 as follows –

- Paraburdoo to Perth from \$159
- Newman to Perth from \$159

***Actions that would make a difference***

An evidenced based and engaged approach

- Consistent with the DPIRD submission, the ability to understand the pricing approach of airlines is important to enable an informed discussion on airfares. An evidence base, properly designed, analysed and communicated to Government, business users, the airline, the regional community and leisure tourists, could improve transparency and reduce the conjecture around what drive the pricing of airfares in regional WA.
- Market segmentation studies have been done for some routes, however to better understand the issues facing airline, industry and regulators, that work could be significantly expanded, particularly into routes that have high levels of impact for community and industry.
- 'Choice modelling' based on improved understanding of market segmentation will provide the basis of better informed policy, more targeted industry marketing and enhanced airline decision making.
- Quantitative tools to monitor regional prices and report on qualitative consumer attitudes to airfares could be developed within the Regional Prices Index and Living In the Regions Surveys processes managed by the former department of Regional Development now DPIRD.
- The development of the above evidence based information, coupled with regular engagement by the airlines with regional community and businesses, would enable improved accountability and understanding of regional airfares.