



SHIRE OF DERBY/WEST KIMBERLEY

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ALL COMMUNICATIONS TO BE ADDRESSED TO THE CHIEF EXECUTIVE OFFICER

28 July 2017

Ms. Jessica Jane Shaw MLA
Member for Swan Hills
Chair, Economics and Industry Standing Committee
Legislative Assembly
Parliament House
GPO Box A11
Perth WA 6837

Dear Ms. Shaw,

Inquiry into regional airfares in Western Australia – Submission

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

This submission outlines a number of areas for the Committee's consideration in reference to this inquiry, including:

- Critical importance of air access to our region
- Impacts that high-cost regional airfares have on regional centres- from a business, tourism and social perspective (terms of reference 'b')
- Impact of State Government regulatory processes on the cost and efficiency of regional air services (terms of reference 'c')
- Actions that the State and local government authorities can take to limit increases to airfares without undermining the commercial viability of RPT services (terms of reference 'd')

This submission is on behalf of the Shire of Derby – West Kimberley and the communities our Shire represents. I would be delighted to discuss this matter with you further and/or appear to give evidence to the Committee.

Yours faithfully

Stephen Gash
Chief Executive Officer

Critical importance of air access to our region

Air access is critically important to regional areas such as ours, providing essential infrastructure for our economy and community. Air access has a significant impact on our economy, tourism market and community wellbeing. For the economy, air service connects our businesses and their employees with the national and global economy. From a tourism perspective, air service facilitates the delivery of visitors that without air access they simply would not come. In terms of the community, air access to Perth is of critical importance for many education and health related matters.

This important link has been well documented across numerous publications. A 2012 Deloitte Access Economics Study found that regional and remote airports contribute \$329 million to the economy (in value added terms) and likely more importantly provide \$113 million in local wages. A further study by Acil Allen Consulting in 2016 found similar results and further highlighted the important economic and social role air access plays as well as the considerable market disadvantage and challenges that regional airports face.

Various State Government strategies and policies echo the importance of air access for regional communities, including:

- **WA State Aviation Strategy (2015):** The Western Australian State Aviation Strategy was developed in recognition of the pivotal role that aviation plays in the economic and social development of the State. As highlighted in the Strategy, due to the sheer size of the state, airline connections between Perth and the rest of the state provide critical infrastructure that services business, resource development, tourism, leisure and the movement of residents in communities.

Within the strategy, the State Government's policy objectives for intrastate air services have the following aims:

- Ensure an adequate level of RPT air services on regional routes in WA
 - Foster competition on RPT routes, potentially leading to reduced airfares, more frequent services and greater choice for consumers
 - Ensure charter air services do not detract from the viability of RPT air services
 - Minimise costs on the resources sector and charter operators in WA
 - Reduce administrative 'red tape'
 - Minimise direct costs to the State.
- **Review of Regulated Regular Public Transport Air Routes in Western Australia (2015):** the State Government conducted a review of all regulated RPT routes in the State, ahead of the individual licenses for the routes expiring in February 2016. The review was conducted in a manner to support the State's policy objectives highlighted in the WA State Aviation Strategy.

The review document also highlights the following key principles underpinning decision-making in respect to regulated RPT air services:

- Long-term policy clarity and certainty fosters investment by airlines
- Business and community needs are taken into account in any market intervention by the Government.
- Less Government intervention in the market encourages innovation and competition on air routes, which may lead to reduced airfares and greater choice for consumers.
- All communities with more than 500 people should ideally have access to an RPT air service operating a minimum of three services a week, the airport should be located within 250 km of the town and be accessible by a sealed road.

The Perth – Derby (Curtin) route was one of eight services reviewed. The review recommended that a three service per week air service be maintained but due to numerous mines in the area shutting down and a subsequent decrease in demand (see box below), no airline submitted a proposal for the route and subsequently Virgin Australia cancelled all future flights on 29 February 2016. The WA Government has since recommended that our residents access air services from Broome, creating a considerable burden on our community.

The review failed to consider the needs of the community or the fact that by recommending residents travel to Broome for air access to Perth that the State Government was contradicting its own policy as Fitzroy Crossing (a community of 1,297 people according to the Census 2016) is almost 400km from the Broome Airport.

Box 1: Economic Turbulence – Economic Impact of Major Closures and Future Economic Development

In late 2014, the economy of Derby-West Kimberley was shocked with the closure of the Curtin Detention Centre (September 2014) and the closure of the two iron ore mines (November 2014). In July 2015, the Kimberley Diamond Mine was closed suddenly as well. **Combined, these closures resulted in the loss of 920 direct jobs** (or 29% of all jobs in the Shire). Indirectly, these operations supported an additional 626 jobs in the broader economy, bringing the total job loss to 1,546, almost half of all jobs in the Shire.

While these economic shocks have been difficult for the community to deal with and we experienced numerous consequences including loss of population, rising unemployment (amongst the highest in the country) and falling house prices, we have been diligent in terms of economic and tourism development. There is considerable potential for future economic development in our Shire that would more than replace the jobs lost. **However, without access to efficient and affordable air travel to Perth, all of our future potential economic development opportunities are at risk.**

Resource and Mining

- **Mineral Sands Mining:** Sheffield Resources is currently developing a mineral sands deposit on the Dampier Peninsula with an anticipated construction start in 2017 and commissioning in 2018. This mine operation could employ 400-500 workers.
- **Derby Supply Base:** as the oil and gas sector continues to develop in the Browse Basin, there will be increasing demand to supply support services over the short, medium and long-term. The project could create up to 269 jobs in Derby.
- **Iron Ore Mining:** Koolan Island and Cockatoo Island mines have operated historically and have a high quality iron ore. Depending on the iron ore price, one or both could be re-opened in the future. The mines reportedly employed 420 people combined when they closed.
- **Diamond Mining:** Ellendale Kimberley Diamond Mine was at one time responsible for roughly 50% of the world's supply of yellow diamonds. While the mine was shut in 2015, there is potential that it may re-open in the future. The mine previously employed approximately 100 staff.

Aquaculture

- **Barramundi Farming:** Cone Bay Barramundi Farm has recently received approvals to expand production to 15,000 tonnes per annum, with the increase in production earmarked for potential export. The expansion could mean up to an additional 200 jobs, once the full production capacity is reached.

Tourism

- **Unique Tourism Products:** Derby is the closest regional centre to the Buccaneer Archipelago, one of the Kimberley's most pristine marine destinations and home to the local tourism icon, the Horizontal Falls. Other activities include various famous fishing locations and exclusive fishing lodges. With RPT services, Derby would be the natural launching point for this destination and could facilitate tourist movements very efficiently, given its proximity. Additionally, the Shire of Derby-West Kimberley is planning to deliver a dedicated tourism terminal at the redeveloped Derby Airport, which would cater specifically to tourists taking chartered seaplane and helicopter trips.

Defence

- **Redevelopment of the Curtin Air Base:** The Australian Defence Force has announced that the Curtin Air Base will undergo a \$100 million to \$200 million redevelopment from 2017 until 2022.

Impacts that high-cost regional airfares have on regional centres

Airfares from Broome to Perth are expensive. A search on www.flightcentre.com.au for flights conducted on 25 July 2017 (allowing four weeks prior to departure) found an average cost of \$1,542 per flight (return). This cost amounts to 6.85% of total personal income for the Shire of Derby – West Kimberley (based on 2016 Census). Additionally, this cost is in line with the median monthly mortgage payment for the LGA (\$1,733, based on 2016 Census). This cost does not include the additional travel costs from Derby to Broome, which would increase these travel costs for our residents further. The reverse travel (i.e. Perth to Broome, return) is equally expensive at an average of \$1,170 per flight.

For our community, the high cost of airfares between Broome and Perth is only part of the hindrance of current air access. An independent study in November 2016 by Lucid Economics found that beyond the high costs of airfares from Broome

to Perth, the additional burden of travelling 220km from Derby (further from Fitzroy Crossing) to the Broome airport greatly increased costs further. The study found that the cost of travel, parking, accommodation and the cost of time greatly increased the financial costs of travel for our community by a combined total of \$2.4 million per year. This increase in costs was not only shouldered by our residents and businesses (who pay an additional \$900,000 per year), but by both local and state government. The study also found that the costs to visitors increased \$550,000, which puts our local tourism industry at a great disadvantage.

Table 1 Financial Costs of No RPT Service in Derby (2016)

Visitor/Passenger Group	Annual Cost (\$)
State Government	\$812,041
Local Government	\$127,335
Local Residents & Business	\$900,065
Visitors to Derby (business, VFR, etc.)	\$549,559
Total	\$2,389,000

Source: Lucid Economics, *Derby Regular Public Transport Service Economic Assessment* (2016)

The study found that despite the closure of the mines in our region, our community still generates 6,000 flights per year. A third of these flights are generated by patients that receive treatment in Perth on a regular basis, many of them suffering from critical illnesses. These patients must now endure the flight and then a 2-3 hour car journey after receiving treatment. Additionally, many of our health tests, such as blood tests and public pool water samples, must now travel to Broome and then be flown to Perth for examination, greatly increasing the time that is required to receive the results. There has already been a case of Naegleria, which is a microscopic amoeba that can cause a very rare, but severe, infection of the brain. The positive test result was further analysed and a less severe strain of Naegleria was identified, however, the time involved to determine this exact finding was significant, given the potential repercussions and the fact that a swimming carnival had been planned (and was cancelled as a result of the initial analysis).

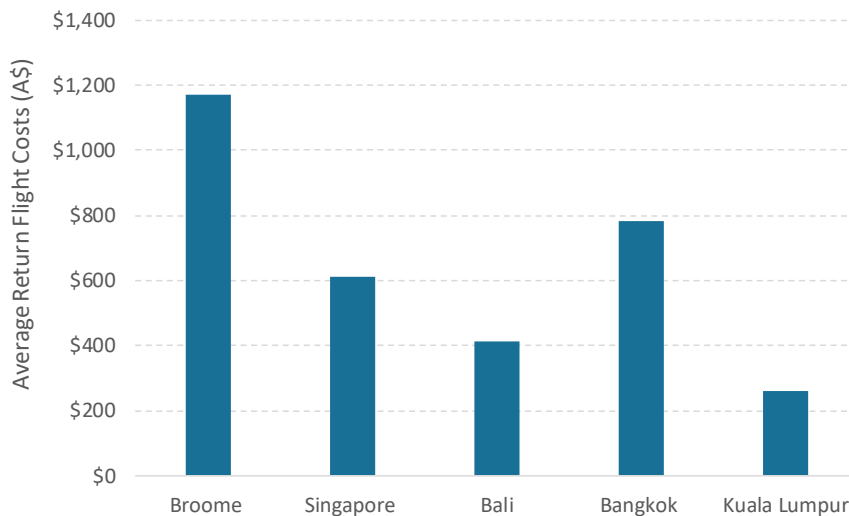
The Lucid Economics Study found that the burden of travel to Broome as well as the high costs of airfares impacted most facets of our community, including:

- **Police and Justice:** local police officers who must appear in court in Perth must now spend three days instead of just one day away from the community, taking human resources and vehicles away from a community that already does not have a significant pool of resources. Additionally, there is a strain on the existing police workforce as officers must work overtime to fill the vacancy created by the officer leaving.
- **Social Services:** similar to police, any travel to Perth now requires considerable human and financial resources. Vehicles are required in the region due to its size and having a vehicle sit idle at the Broome Airport over a number of days means lower levels of service for our community.
- **Education and Health Services:** Due to the high cost of airfares as well as the additional burden of travelling to Broome for air access, all schools and health service providers struggle to get and retain staff, which ultimately leads to lower levels of education and health services in our community.
- **Personal Wellbeing:** Our population has declined since RPT service from Derby ceased and the cost of air fares has risen considerably. Many people struggle from the lack of access to family and friends in other parts of the State, leading to a sense of isolation, which ultimately leads to these residents moving away, which creates additional issues for our broader economy and community.

There are numerous other examples of how the high cost of airfares and the burden of no RPT service have generated considerable negative impacts on our community.

For many businesses, this flight would be considered expensive and adds a considerable cost to investing and doing business in our Shire. For tourism, the impact of high cost regional airfares is debilitating. The figure below shows a comparison of airfare searches on www.flightcentre.com.au and shows that numerous international tourist destinations are considerably more affordable for residents of Perth than a flight to Broome, even though the international flights travel further, consuming more fuel and human work hours. The high costs of airfare to our region provide a considerable barrier for tourism in Derby and the region against such low costs to fly to international tourist destinations.

Figure 1. Return Airfare from Perth to Multiple Destinations

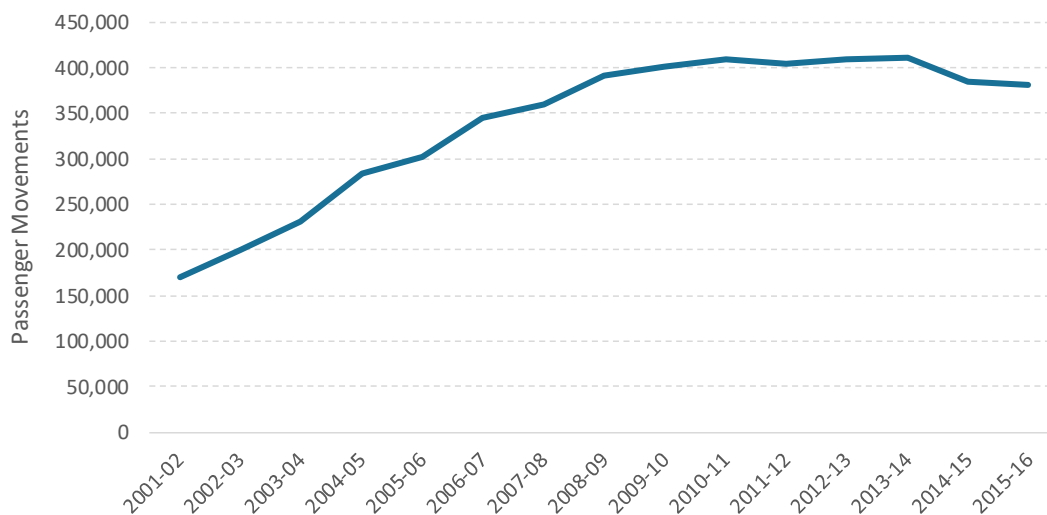


Note: flight searched four weeks prior to departure as of 25 July. Only direct flights considered.
Source: Lucid Economics, *Impacts of High Airfare on Tourism in Derby* (2017)

A study into these impacts found that approximately 30,000 visitors would likely be deterred from travelling to our region due to the high cost of airfares. These visitors would represent approximately \$31.2 million of visitor expenditure to our region, which would support approximately 220 local jobs.

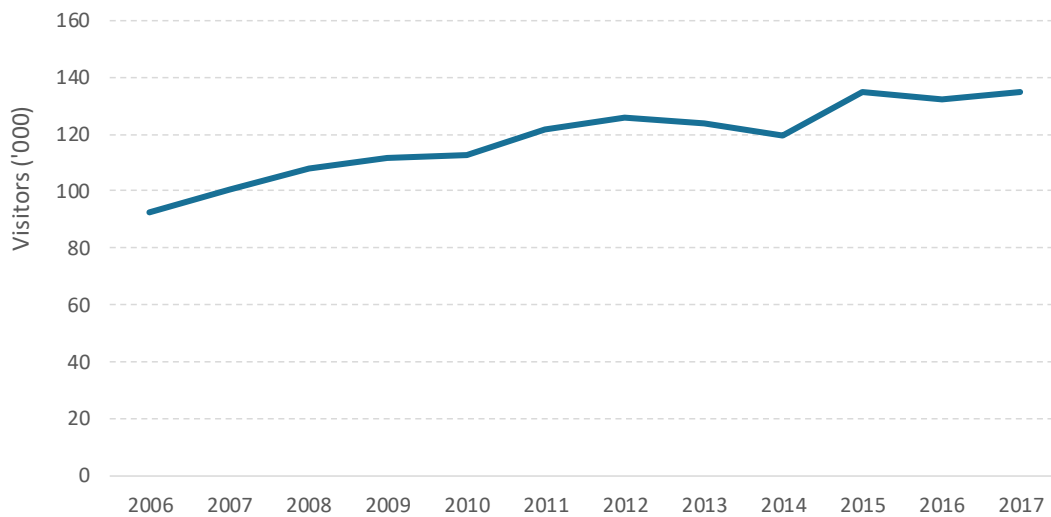
The figures below show that passenger movements at the Broome Airport has been stagnant since 2009-10 and have declined over the last two years. Additionally, the number of visitors arriving to the region by air have also stagnated over the last two years. While a traveller will evaluate numerous considerations prior to booking a trip and the cost of airfare is only one of these considerations, the available evidence would seem to indicate that high airfares to Broome is having a distinct impact on visitor numbers and the tourism industry in our region.

Figure 2. Passenger Movements, Broome International Airport



Source: BITRE (2017); Lucid Economics

Figure 3. Visitors to Broome (Arriving by Air)



Source: TRA (2017); Lucid Economics

Impact of State Government regulatory processes on the cost and efficiency of regional air services

For many reasons, the *Review of Regulated Regular Public Transport Air Routes in Western Australia (2015)* was an utter failure and disaster for our community. While we recognise that the review (in large part) took place during 2014 and before the mines in our region announced their closure, so the passenger traffic they generated was appropriately considered in the review. However, as circumstances changed, there was a lack of response from the review to be able to incorporate these changes.

The review recommended that a three service per week be maintained for Derby and the regulated route was put out for expressions of interest. Given the decrease in demand from the mining activities, there was no demand for a three flight per week service. However, discussions with Virgin at the time identified (and the Lucid Economics report subsequently verified this) that there was sufficient demand for a two flight per week service. A two flight per week option was not explored by the EOI process.

Surveying conducted in 2014 as part of the review did identify that the majority of passengers on the air service operating between Broome – Derby - Fitzroy Crossing – Halls Creek were from Halls Creek. There should have been no surprise in this finding as the Derby – Perth flight was operating during this time and residents of Derby and Fitzroy Crossing could get to Perth quicker flying direct. In response to the data, the Broome – Derby - Fitzroy Crossing – Halls Creek service was cancelled and a new trial Halls Creek – Kununurra services was started (to service the requirements of the Halls Creek community. This trial is now over and the service has been recently extended (Extension for subsidised flight trial, The West Australian, 15 July 2017).

Given the inflexible nature of the review to adjust to the changing considering locally, the residents in our Shire no longer had access to the Derby – Perth flight or the Broome – Derby - Fitzroy Crossing – Halls Creek flight. Effectively, the review process unfairly disadvantaged our community and showed a bias towards other communities, namely Halls Creek.

The regulatory process must be conducted in such a manner that reflects the actual market as opposed to a bureaucratic process of 'ticking boxes'. For the *Review of Regulated Regular Public Transport Air Routes in Western Australia (2015)* there was a complete lack of common sense applied to the process, which ultimately resulted in numerous negative impacts on our economy and community (as documented by the Lucid Economics report).

Actions that the State and local government authorities can take to limit increases to airfares without undermining the commercial viability of RPT services

The Shire of Derby-West Kimberley has taken a very proactive approach to our economic and tourism development since the closure of the Kimberley Detention Centre in 2014 and the subsequent closure of numerous mines. Specific to combating the high cost of airfares and specifically the high cost of air travel that our residents shoulder through the requirement to access air travel via Broome, we have undertaken a process to reinvest and redevelopment the Shire owned Derby Airport. Traditionally, RPT services accessed the Derby (Curtin) Airport, which is a shared facility with the RAAF. The Derby Airport functioned for general aviation only.

We are currently in the process of a \$5.1 million redevelopment of the Derby Airport, which will deliver a facility capable of handling RPT service as well as a specific tourism terminal to facilitate leisure visitation to our region, specifically providing access to the Horizontal Waterfalls and other pristine, remote locations in our region.

This project was made possible through a grant from the National Stronger Regions Fund and is a strong example of how through strategic investments by the State and Federal Government, regional airports can deliver RPT services in an efficient and commercially sustainable manner. Because of the grant funding and the Shire avoiding taking on debt obligations in order to fund the project, the operating costs of the airport will be very competitive. The table below highlights various charges taken from our current operational model for the new airport. As highlighted in the table below, the Derby Airport will offer very competitive passenger and landing fees.

Table 2 RPT Fees at Various Regional Airports (2016)

	RPT Passenger Charge (per passenger)	RPT Aircraft Charge (per tonne)	Passenger Screening Fee (per passenger)
Derby Airport	\$12.92	\$18.70	\$11.86
Geraldton	\$22.50	\$18.00	\$19.00
Port Hedland	\$24.24	\$24.56	\$10.45
Karratha	\$13.10	\$41.90	\$15.50
Broome	\$20.37	\$23.65	\$13.24
Esperance	\$23.00	\$34.50	\$41.00

Source: RFF, Economic Impact Assessment and Cost Benefit Assessment Derby Airport Redevelopment (2015)

Airports are considerable assets that are often owned and managed by the local government. Each airport will differ, but they all require the appropriate funding in order to pay for services and maintain the asset over time. The cost to maintain the asset as well as provide the often very regulated services that are required, such as passenger screening, can be very high. The 2016 Acil Allen Study found that:

- Regional airports across Australia invested \$185 million in 2014-15 to maintain and improve operations.
- Regional airports across Australia employed 1,720 FTEs in 2014-15.
- Many regional airports owners face financial stress from the costs of maintaining and operating the airport.
- Regional airports also face great challenges in upgrading facilities to meet future aviation needs.
- 61% of regional airports had budget deficits in 2014-15.
- Expenditures at regional airports are expected to rise by 38% over the next decade.
- Nearly 40% of regional airports expect persistent budget deficits over the next 10 years.
- Across Australia's regional airport network, it is expected that the annual budget deficit will be \$17 million per year, equating to a \$170 million shortfall in essential infrastructure and maintenance funding at regional airports over the next 10 years.

Through increased funding to regional airports, the State and Federal Governments can contribute to the on-going sustainability of these assets and the important services that they provide. Our example demonstrates the effectiveness of grant funding and its ability to assist in ensuring a competitive charging regime for the airlines.

Shire of Derby approach to reduction of costs

The Shire of Derby West Kimberley are operators of three airports – Derby, Fitzroy Crossing and Curtin (currently non-

operational since February 2016) with each incurring fixed annual expense regardless of whether they facilitate RPT services or other aviation activity. A large component of the costs when servicing an RPT in the past was staffing. Going forward as a new RPT service develops, the Shire will manage these cost by diversifying the skills and time availability of existing staff for the times an aircraft is at the airport. Whilst this will temporarily remove staff from their otherwise ordinary duties, it reflects an innovative approach to assisting the viability of our airports and an RPT. Further examples of these costs despite an RPT include (by no means an exhaustive list):

- Maintenance: slashing, fencing, lighting, building, equipment
- Land holding cost
- Annual technical inspections including electrical
- Electricity
- Water
- Amortised pavement depreciation
- Amortised infrastructure depreciation
- Line marking
- Emergency exercises

Against these costs, there are limited opportunities to derive revenues in both diversity and volume to sustain or indeed grow each airport as a viable standalone operation including building reserves to fund future capital replacements. Broadly, most airports have airside and non-airside revenue sources where increasingly, the non-airside aspect offers a greater potential contribution.

Landing fees and passenger head tax are largely the only means to generate airside revenue. The former is tied to weight of the aircraft and the latter to the number of passengers on the aircraft – ergo, the larger the aircraft the larger the revenue and ultimately demand. Incidentally, these costs are priced directly into the cost of travel.

The Shire is acutely aware that pursuing a cost recovery business model for our airports through a majority of airside revenue would require exorbitant landing fees, head taxes and other charges that would drive travel costs up and threaten viability of an RPT and general aviation. As illustrated in Table 2, Derby Airport RPT costs are at the lower end of the comparative locations.

In determining these charges, the Shire has been mindful that a Perth-Derby service must be price competitive given the proximity of Broome as an alternative and have worked closely with past operators to assist their business models to work for our region's needs. This has also included proactively consulting the community and industry to accept departure slots from Perth that might be less convenient (ie very early but less expensive to keep the ticket prices down).

Further, it has been critical to capacity match the type of aircraft with the demand so that the revenue and costs are proportionate to the passenger numbers whereby following the decline in numbers when the Curtin Detention Centre closed, the aircraft was reduced from an A320 to an F100.

Bearing these elements in mind, the Shire has in the past worked with operators including Virgin to establish and maintain a viable service that met the needs of industry and the community through Curtin. As a local government acting in the interests of our region, the Shire will again work with future potential operators to achieve a similar outcome at Derby Airport.

As a means of funding an operating airport, the landside opportunities must be maximised to ease the pressure on the landing fees and head taxes that are direct price contributors to the cost of travel. Larger airports with higher passenger volumes can take advantage of paid car parking, retail, leasing etc. whereas Derby Airport does not have this luxury.

The Shire continually works to identify landside revenue opportunities through leasing hangar space, encouraging existing and new operators to develop and indeed as outlined above, have ourselves committed to a large redevelopment project that will expand further capacity to serve the aviation industry and its related components.