REGAIR Submission 93
Recv'd 28 July 2017

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26 July 2017

Economics and Industry Standing Committee
Legislative Assembly
1st Floor, 11 Harvest Terrace
WEST PERTH WA 6005

Dear Members

Inquiry into regional airfares in Western Australia

As members are aware, Wiluna is an isolated community located more than 1,100 kilometres from Perth and more than 500 kilometres from the regional city of Kalgoorlie.

As a consequence of its distance from services, the community is reliant upon air transport both for travelling to Perth to access the vast range of services that are not available in Wiluna, and for bringing contractors, consultants and specialised service providers to Wiluna. The high cost of air travel to and from Wiluna therefore has a significant impact throughout our community.

The Shire of Wiluna operates the Wiluna Aerodrome, which has 3 RPT flights in and 3 RPT flights out per week (on Mondays, Wednesdays, and Fridays) to/from Perth via Meekatharra and Mount Magnet. The general community (including the Shire, the local health service, and local (non-mining) businesses) can only access these RPT flights for their air travel needs. The cost of a return flight to or from Perth is approximately $900.

In response to the Committee's inquiry, we wish to submit as follows:

<u>Factors contributing to the current high cost of regional airfares</u>

1. Lack of competition between RPT operators on many "regional" routes.
   We observe that those routes that enjoy the most reasonable fares are those that enjoy competition between RPT operators. This is true not only of the highly-competitive and highly-trafficked routes such as Perth-Melbourne, but also of regional routes that are serviced by competing RPT operators such as Perth to Geraldton, Perth to Kalgoorlie, Perth to Port Hedland, or Perth to Kununurra.

2. The federally regulated (through CASA) distinction between RPT operators and non-RPT (ie. Charter) operators, and the different regulatory requirements and cost structures which result in inefficient use of resources, increased costs for RPT operators and higher fares for their customers.

This often leads to non-RPT charter airlines (who enjoy lower regulatory burdens and costs than RPT-licensed operators) duplicating services on the same routes as RPT flights, and both the RPT flights and the non-RPT flights operate at under-capacity because the empty seats on the non-RPT flights can't (by law) be sold to the general public, and the empty seats on the RPT flights can't be sold to the users of charter flights because they are too expensive.

The costs to regional communities of this situation of under-utilised flights and the attendant high airfares faced by remote communities (compared with the benefits, if any, of this two-tier civil aviation regulatory framework) would be a topic worthy of investigation by the Productivity Commission, in our opinion.

We are not sure what the extra regulatory burden and additional costs imposed on RPT operators are supposed to achieve, because all air passengers (whether travelling on RPT flights or non-RPT flights) want to be safe; if the additional regulatory burden and costs imposed on RPT operators are essential in order to guarantee the safety of their customers, then are we to conclude that those passengers travelling on the much cheaper non-RPT flights are only "half-safe"?

3. Aircraft size has a significant effect on the per-passenger cost of flights (and consequently upon the airfares). Generally speaking, the use of larger aircraft (if filled with passengers) results in lower per-passenger costs and fares.

   Obviously, this doesn't hold true if there are too many empty seats, so the use of larger aircraft is subject to a demand for seats.

   We submit that there would be a lot more demand for seats on RPT flights if not for unfair competition from charter flights by non-RPT operators who have lower operating costs due to the two-tier civil aviation regulatory framework mentioned above.

   The lower costs associated with non-RPT charter operators motivates the largest users of air travel in our remote communities (ie. mining companies) to charter low-cost flights from non-RPT operators in preference to utilizing the RPT flights. Consequently, the RPT operators get less demand for seats than would otherwise be the case and are therefore forced to use smaller aircraft that have higher per-passenger costs that result in higher airfares.

   Consequently, some sectors of our society (mainly mining companies) enjoy lower costs at the expense of the other sectors of our remote, financially-disadvantaged communities.

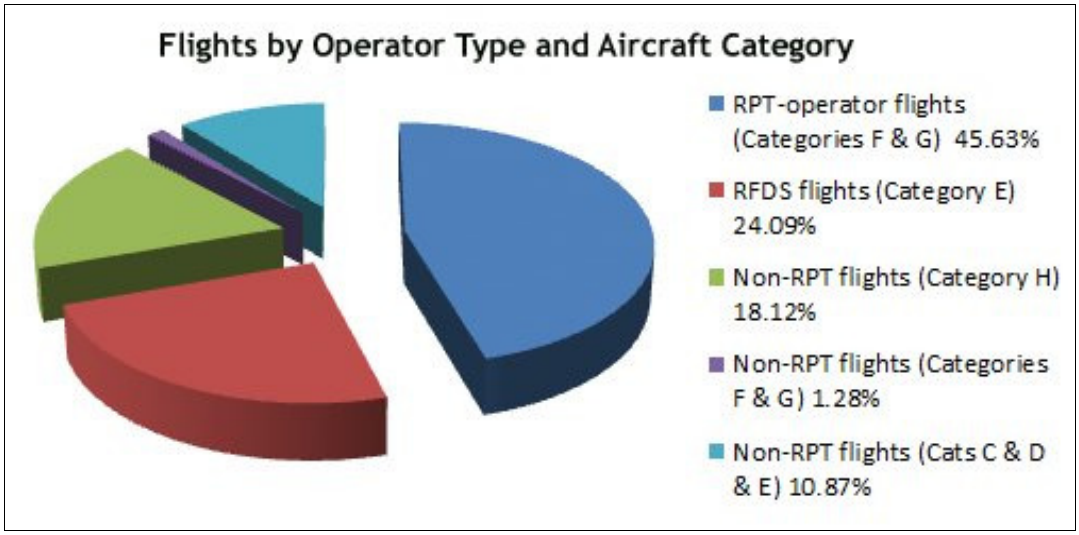
   We are certainly not against genuine competition on regional and remote air routes, but genuine competition involves a "level playing field" where:
   - All operators face the same regulatory burdens and costs; and
   - All sectors of our community have access to the available flights and airfares.

In rare circumstances, mining company charter flights are a benefit rather than a cost to the local community. For example, Ramelius Resources Limited contracts charter flights from Perth to Mount Magnet from Skippers Aviation, an RPT-licensed operator. They probably pay a premium to charter from Skippers rather than a non-RPT-licensed operator with lower costs. But because the charter flights are provided by from a licensed RPT operator, any empty seats are able to be sold to members of the public. This is a WIN-WIN-WIN situation with benefits to the airline, the mining company and the general community.

But unfortunately, the Mount Magnet situation is not generally replicated by other airline charterers.

There was a total of 469 landings at Wiluna Aerodrome in the 2016-2017 financial year (a detailed analysis is attached as Appendix A). In Chart 1 below, these flights have been categorised according to the aircraft operator and the category of aircraft.

Chart 1



Aircraft are categorised according to maximum take-off weights (MTOW), with categories G and H being the largest aircraft that cause the most wear and tear on runways and taxiways.

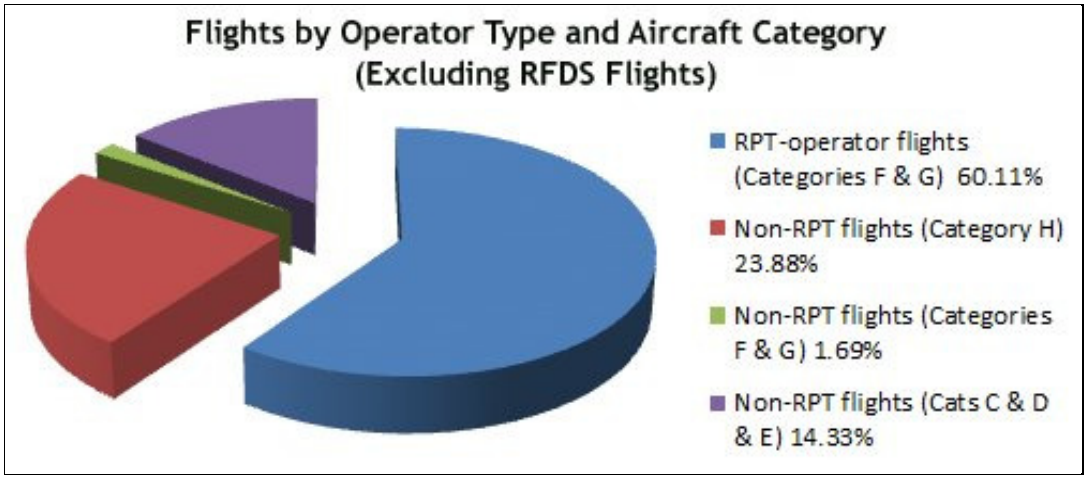
As can be seen from the chart:

- Approximately 24% of landings were the Royal Flying Doctor Service (RFDS)
- Almost 46% of landings were flights from an RPT-licensed operator
- About 18% of landings were the heaviest category of aircraft (Category H), which causes the most wear and tear to the aerodrome. All of these flights were operated by a non-RPT charter company
- Almost 11% were small "general aviation" aircraft

Flights operated by RFDS are not charged either landing fees or passenger charges in recognition of the benefits provided to the community by that organisation. We do not have any data on RFDS "passengers". And the RFDS flights are special in that neither mining company personnel nor general members of the community are accommodated or expect to travel on RFDS flights (unless they are in need of medical evacuation). So it will be appropriate to exclude those flights from further analysis for the purpose of this submission.

Chart 2 (below) categorises the remaining 356 landings at Wiluna Aerodrome during the 2016-2017 financial year, after the 113 RFDS flights have been excluded.

Chart 2

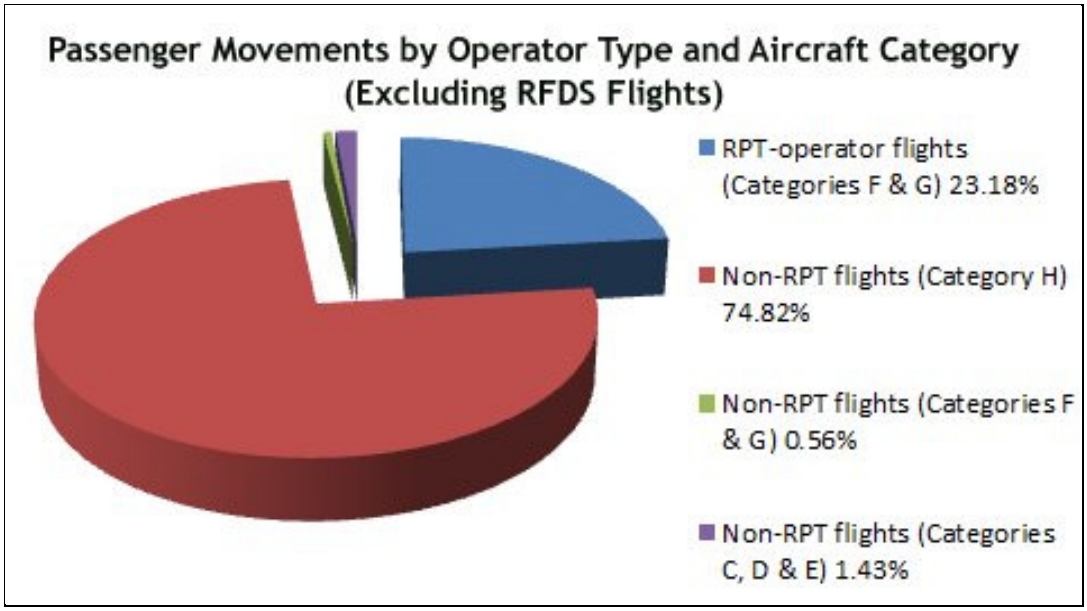


After RFDS flights are excluded:

- Flights by the RPT-licensed operator account for approximately 60% of landings; and
- Non-RPT flights in category F, G & H aircraft account for approximately 25% of landings.

It is useful to compare the flights with the passenger movements, which totalled 13,557 during the 2016-2017 financial year. The Passenger Movements are categorised in Chart 3:

Chart 3



By comparing Chart 2 and Chart 3, it should be evident that the main factor contributing to the current high cost of RPT airfares into Wiluna is that the RPT flights (which account for approximately 60% of the landings) are only getting

about 23% of the passenger loadings, whilst the non-RPT operators of the large charter flights are using the cost advantages they enjoy as a consequence of the two-tier civil aviation regulatory framework to win almost 75% of the passenger loadings.

This puts the RPT operators at a further disadvantage because, without the passenger numbers due to the non-RPT operators taking most of the available passengers, they have to use smaller aircraft that have higher per-passenger costs which inevitably result in higher airfares.

Impacts of high-cost regional airfares

There are significant economic and social impacts in our community as a consequence of:

- The high cost of RPT airfares; and
- The infrequency of RPT flights.

There is also an impact (albeit much smaller) from very restrictive luggage allowances as a consequence of the use of smaller aircraft, which is at least partly a consequence of the low-cost non-RPT charter operators taking most of the available passenger loadings.

We have not had time due to the deadline for submissions to do any detailed modelling across the whole local economy, but we can probably cite a few examples that may serve to illustrate the kind of cost impacts that individual business and organisations typically experience.

Example One - Recruitment

In parts of Australia that are less remote or don't face very high airfares, it would be very common practice when recruiting to shortlist the 3 apparently best applicants for a face-to-face interview as part of the selection process.

With a proper recruitment campaign, local organisations are able to generate a good selection of job applicants, but if they 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.

Consequently, it is not unknown for organisations in Wiluna to either:

- Hire on the basis of a telephone interview; or
- Only bring one applicant for an interview in Wiluna, and appoint that applicant (if they seem reasonable) without a proper comparison with the other most promising applicants.

Although either of these strategies may save on interview costs, they can also result in the significant costs to businesses (and to the economy more generally) of sub-optimal appointments.

After the appointment, it is not really practical to use the RPT flight to relocate the new employee as the luggage allowance is only 15kg including carry-on. So if the employee has a 4kg laptop and a 1kg bag, they'll only be able to bring 10kg of clothes (so they'll have to do laundry really often!).

Example 2 – A Building Project
Whilst recruitment is a fairly day-to-day occurrence, the second example has been chosen as an example of how costs can quickly escalate very significantly due to high airfares, in respect of a capital project.

There is a lack in Wiluna of services such as architects, surveyors, geotechnical engineers, structural engineers, electrical engineers, mechanical engineers, hydraulic engineers, building certifiers, etc. In short, we don't have any of the professions required in relation to a complex building project.

These are mostly concentrated around the metropolitan region, although some (but not all) of these professions can be sourced from regional centres such as Kalgoorlie or Geraldton. Typically they will be sourced from Perth.

For a major building project, all of these professionals will need to visit the site at least once and the architect will probably need to visit at least 6 times and possibly 12 times depending on the size and complexity of the project. Often the professionals such as those listed above will only need to visit for 2 or 3 hours (maybe a little more or less), but because there are only three RPT flights a week the choices are:

- Charter a small plane so that they can come to Wiluna, do their work, and return to Perth the same day. This will be very expensive (about $8,000, because smaller planes involve much higher per-passenger costs); or
- Come on the RPT flight (about $900) and charge us for two nights' accommodation (about $300), meals (about $150) and also 2½ or 3 days salary (variable, depending on their rates).

Either way, at professional charge-out rates per hour it's probably going to be about $8,000 to $9,000 per visit. These costs are based on actual quotes we have received.

Of course, another alternative would be to drive (as Wiluna people sometimes have to do when they go to Perth). But in the words of one of the quotes we received, "To drive would seem at this stage costly and impractical. This has not been considered".

I think the Committee can see that in relation to a building project the combination of high RPT airfares and infrequent flights could easily add $100,000 (or significantly more) to a building project, just in the costs of site visits from various professionals.

The Shire has been very fortunate in relation to our most recent building project to have engaged an architect who owns his own plane which he is happy to use to bring himself and other professionals on site visits. Consequently, we are reducing such costs by approximately 75%. But the costs indicated above are from actual quotations, and probably better represent the typical case for other organisations, and for previous Shire projects.

Social Impacts

In regard to social impacts, the Shire may well not be the best-placed organisation to advise. Perhaps the local school or the local medical service will also make a submission to the Committee. But we suppose that the high cost of RPT airfares would reduce the opportunities for people in the community to travel to access services and cultural events, educational opportunities, and to socialize with family and friends in the metropolitan area.

We don't suppose that it has a particularly big impact on tourism because our tourist market is almost exclusively self-drive (particularly four-wheel drivers). But potentially that could change in the future.

Impact of State Government Regulatory Processes on the Cost and Efficiency of Regional Air Services

The major problem seems to be the federal (civil aviation) regulatory processes that impose a greater regulatory burden and costs on the RPT-licensed operators than the non-RPT licensed operators and prevents fair competition.

We realise that the State also plays a regulatory role in authorising airlines to operate on particular intrastate routes. More competition would be a good thing, but fairer competition is considerably more important. If the non-RPT operators didn't have such a cost advantage and take approximately 75% of the available passengers, then maybe there would be enough business on the route to support more than one RPT carrier.

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

We would think that the main thing that would limit increases to RPT airfares would be to strengthen the RPT operators by reducing or eliminating the unfair competition, thereby increasing demand for RPT seats.

We are not sure of the powers of the State in regard to this, vis-à-vis the powers of the Australian government, but we suggest that non-RPT licensed operators should be prohibited from providing charter flights using aircraft larger that category E. We expect that the effects would be as follows:

1. Small aircraft charters and general aviation would be unaffected.
2. Non-RPT operators would no longer be able to undercut RPT-licensed operators. So demand for RPT seats would increase. RPT-licensed operators could meet the increased demand in three ways:
    a) By use of larger aircraft with lower costs per passenger, which would allow for lower airfares.
    b) By scheduling more flights, which would increase convenience, encourage greater usage (more demand) and reduce costs to the community associated with infrequent flights (eg. Additional accommodation costs due to having to stay away longer due to the infrequency of flights).
    c) A combination of both of the above. Subject to regulation, it might also allow for more RPT operators to operate on the same route.

3. The mining companies could still contract charters using large aircraft, but they would have to charter the larger aircraft from RPT-licensed operators. No doubt some of the operators of large aircraft that are not currently licensed for RPT flights would invest the effort and expense to get RPT licences. The outcome would be that any empty seats on these large charter flights could be available for sale to the public, as is already the case in Mount Magnet (where the charter flight operator is RPT-licensed).

As for local governments, they may have a capacity to try to level the playing field as between RPT-licensed operators and the non-RPT operators of large charters by adopting differential airport charges. To a certain extent, most local governments already have differential airport charges because it is quite common to exempt RFDS flights from landing fees and passenger charges.

The problem is that large well-resourced corporations such as mining companies and the operators of large aircraft are often inclined to use their superior resources to bully small remote impecunious local governments into submission.

[3 paragraphs redacted]

For this reason, we believe that it is really up to the State (or the federal government) to resolve this issue because our small local governments don't have the resources to defend in the Courts our statutory powers that the Parliament has given us to impose user charges.

Yours faithfully

Colin Bastow
Acting CEO

Appendix A

Airport Usage Analysis - Wiluna Airport (YWLU) usage counts ending 2017-06

Customer	Aircraft MTOW Category	Aircraft Description	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
National Jet Systems P/L	H-over30000	British Aerospace BAE146-200					1							1	2
Nantay P/L	G-15000-30000	De Havilland DHC-8-102		1											1
Nantay P/L	F-5700-14999	Raytheon HAWKER850XP					1								1
R F D S Western Operations - WA	E-3000-5699	Pilatus PC-12/47	1		1				2						4
R F D S Western Operations - WA	E-3000-5699	Pilatus PC-12/47E	7	8	10	14	10	9	8	10	4	13	11	5	109
Skippers Aviation P/L	F-5700-14999	Aeronaut EMB-120ER	3	15	13	13	9	2	12	9	7	9	9	7	108
Skippers Aviation P/L	G-15000-30000	Bombardier DHC-8-315	3	4	3										10
Skippers Aviation P/L	G-15000-30000	De Havilland DHC-8-102	4	1	1		1	2	1	2	2	2	3	3	22
Skippers Aviation P/L	G-15000-30000	De Havilland DHC-8-106	7	2			4	5		2	3	7	7	2	39
Skippers Aviation P/L	G-15000-30000	De Havilland DHC-8-314	5	4	2			2		1	1			2	17
Skippers Aviation P/L	F-5700-14999	Fairchild SA227-DC	2	7	4			1			1		1	2	18
Paul Lyons Aviation P/L	D-2000-2999	Beech 58	1	1		1		1							4
Paul Lyons Aviation P/L	E-3000-5699	Cessna 441	1												1
Texrio P/L	E-3000-5699	Raytheon B200												1	1
Texrio P/L	E-3000-5699	Raytheon C90A										2	1	1	4
Star Aviation P/L	E-3000-5699	Beech 200	1		1	1			1						4
Star Aviation P/L	E-3000-5699	Beech B200						1		1					2
Star Aviation P/L	E-3000-5699	Piper PA-31-350										1			1
Pegasus Air P/L (NSW)	E-3000-5699	Pilatus PC-12/47E					1	1	1	4	1	2			10
WA Police Air Wing Support Unit	E-3000-5699	Pilatus PC-12/47E			1										1
Chrishine Nominees P/L	E-3000-5699	Cessna 404									1				1
Chrishine Nominees P/L	D-2000-2999	Piper PA-31	1	1		1		1	1	1	1	1	1	1	10
Chrishine Nominees P/L	E-3000-5699	Piper PA-31-350	1	2					1		1			1	6
Surveillance Australia P/L	G-15000-30000	Bombardier CL-600-2B16												1	1
Air Phoenix International P/L	E-3000-5699	Beech B200									1	2			3
National Jet Express P/L	H-over30000	British Aerospace AVRO146-RJ85	1						1	1	2			3	8
National Jet Express P/L	H-over30000	British Aerospace BAE146-100			4	9	10	8	10	8	9	5	8	4	75
Corsaire P/L	E-3000-5699	Cessna 441											1		1
Ad Astral Aviation Services P/L - In Administratio	F-5700-14999	Beech 1900D	1												1
Networkcity P/L	C-1000-1999	Cessna 182T								1					1
Divair P/L	F-5700-14999	Cessna 525B					1	1							2
Jandakot Flight Centre P/L	D-2000-2999	Beech 58								1					1
	Totals		**39**	**46**	**40**	**39**	**38**	**34**	**38**	**41**	**34**	**44**	**42**	**34**	
	Grand Total														**469**

32 rows.

Appendix B – Summary of Passenger Movements – 2016-2017 Financial Year

RPT-operator flights (Categories F & G) 23.18%	3143	23.18%
Non-RPT flights (Category H) 74.82%	10144	74.82%
Non-RPT flights (Categories F & G) 0.56%	76	0.56%
Non-RPT flights (Categories C, D & E) 1.43%	194	1.43%
TOTAL PASSENGER MOVEMENTS =	13557	