

Your Ref: A616247
Our Ref: TT482 / OCR155604
Enquiries: Simon Kot



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

The City of Karratha welcomes this inquiry as aviation is a critical enabler to the growth and prosperity of regional areas within Western Australia. This is particularly important to the Pilbara where the distances to capital cities are vast and there are no passenger/freight rail services outside of private mining networks.

The City has addressed each of the items in the terms of reference as an attachment to this letter. Further information regarding this submission can be made, in the first instance, to: Simon Kot, Director Strategic Projects & Infrastructure, on (08) 9186 8537 or via email at simon.kot@karratha.wa.gov.au.

Yours faithfully

A handwritten signature in black ink, appearing to be "Chris Adams".

Chris Adams
Chief Executive Officer
City of Karratha

5 July 2017

City of Karratha

Background

The City of Karratha (CofK) encompasses several towns with a population in excess of 21,000. Industry within the area utilises a large number of fly in fly out (FIFO) workers to supplement the locally based workforce.

CofK owns and manages two airports within the region being:

1. Karratha Airport (Certified) – The largest regional airport by passenger numbers within Western Australia. In 2016, the airport had over 25,000 aircraft movements and approximately 550,000 passengers. In FY17/18 the airport has budgeted operating expenses of just under \$10M and capital expenses of \$4.8M. The current business plan forecasts a further \$40M in capital expenses over the next 10 years.
2. Roebourne ALA (Uncertified) – A small, limited use, dirt runway with some basic facilities. Maintenance is conducted by Karratha Airport staff on an as and when required basis. No revenue is made from this facility other than one hanger lease.

A new, private, airport has just commenced operations at Cape Preston (approximately 80km Southwest of Karratha). This is only served by charter operations to support the FIFO workforce for the Citic Pacific minesite.

Regular public transport (RPT) flights are only available between Karratha and Perth. CofK has been working with operators in an attempt to commence services to other areas within the region, interstate and overseas. Work on these projects is well advanced.

The 2017 Annual Community Survey identified the cost of regional airfares as being a large concern to the residents of the area. This reinforced the views that were expressed during the recent Western Australian State elections.

General

CofK supports the foundations of this inquiry. In general, the price of airfares between Karratha and Perth seems inflated when compared to similar stage lengths on the East Coast. High airfares are limiting economic growth, tourism and contribute to the transient nature of the population within the region.

Terms of Reference

1. Factors contributing to the current high cost of airfares.

It must first be noted that when talking about high cost of airfares we are referring to available fares outside of sales. Advance sales do occur which provide fare levels around \$200 each way. Although these fares are competitive when compared to similar routes, they are only available for off peak periods with long periods of advance purchase.

The Karratha to Perth route suffers from a lack of competition both in the number of operators and options for alternative routing. The area has always had a duopoly of providers be it either Qantas and Ansett or Qantas and Virgin. Similar routes served by either a monopoly or duopoly have airfares at similar levels. Routes where there is a third

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or fourth operator tend to have lower fares over a consistent period of time throughout the year. The following table shows a comparison between several routes similar in length to Karratha – Perth:

	KTA-PER	CNS-BNE	MEL-BNE	MEL-MCY	SYD-HBA
Qantas	\$403	\$206	\$137	\$177	\$155
Virgin	\$319	\$149	\$125	\$149	\$119
Jetstar	N/A	\$119	\$99	\$119	\$69
Tiger	N/A	\$85	\$89	N/A	N/A

The fares shown are the lowest available on a randomly selected day (13th September 2017). Although having multiple operators influences the fare levels it has proven difficult to attract them to regional Western Australia. This is due to the wide dispersal of population centres and low numbers of leisure/tourism travel passengers.

The lack of a regional hub airport 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.

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.

There are a range of issues that airlines face that increase costs when operating to regional areas within Western Australia. Whilst it is not the City of Karratha's position to defend airline charging the following is acknowledged:

- Demand at different times of the day can be unidirectional. This results in empty flights in one direction.
- Airlines have a lot of difficulty providing a return on capital and often report a loss. Some of the fares quoted in the table above are not sustainable.
- Fares on each flight increase as the available lower fares are sold. Large companies buy out seats well in advance leaving very few cheap fares available for leisure and tourism travel.

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.
- Lower volume airports tend to have higher charges as the operating costs tend to be relatively fixed hence the cost recovery per passenger is higher.
- While many airports do generate a return on asset, this return is not beyond that that is sought by other business operations.

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- Airports are obliged to reinvest in capital and renewal. As public funding for airports is limited, most airports primarily rely on aircraft and passenger revenues to support their operations, maintenance and development.

2. Impacts that high-cost regional airfares have on regional centres from a business, tourism and social perspective.

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.

Local businesses find it difficult to compete outside of a small geographical area. The cost and time to travel to other centres makes it untenable and/or anti-competitive when all travel has to be via Perth. Government agencies are burdened with a similar impact and become inefficient when they can't readily move people between regional centres.

Economic growth is also stunted by the lack of growth in tourism. Tourists do not find the area attractive and packages cannot be competitively priced when the airfare between Perth and the Pilbara is higher than that from Europe to Perth. There is little impetus for airlines to price airfares competitively to attract tourists as they may do for regional centres in the other parts of Australia. Aircraft are booked well in advance by high yielding clients and any other low fare allocations are quickly taken by corporate customers.

The visiting friends and relatives (VFR) market is similarly affected. A large proportion of the CofK area fits within the 'young family' demographic. Families choose to drive the 17 hours to Perth as flying a family is often seen as too expensive. Likewise, it is difficult for relatives to visit the Pilbara at such high fare levels. A growth in VFR would have a positive effect on economic growth.

High regional airfares makes it difficult to attract and retain people in the region. Although the City provides 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 Pilbara less financially viable or attractive when regular travel is required.

Local sporting and cultural events rarely attract many outside of the City environment. The difficulty and cost for intraregional travel is a barrier to providing these events.

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

The State Government has failed to act on the growth in mine airports that are within close proximity to existing facilities. This has led to the proliferation of inefficient airfield infrastructure with multiple airfields capable of landing jet aircraft being developed within close proximity to existing RPT airfields. These mine airports run charter services which do not have the same level of regulatory compliance imposed, particularly related to baggage and passenger screening.

If fewer, larger airports were available and utilised more fully, cost structures and fees per passenger would be lower. Regulations should be imposed that limits the development of new airports that are within close proximity of existing airports.

Additionally, mine related airports should be regulated to ensure that they are used solely for that particular mining operation and are not 'shopped around' to other mining operations

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as alternate transport option as this further exacerbates the dilution of efficient infrastructure.

The State Government provides regulation/subsidy on some low volume air routes within WA to/from Perth but does little in the funding and support of intra-regional routes within the State. This leads to 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.

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

Government should aim to facilitate an environment suitable and attractive for competition to enter into the regional airfares market. Often the first and easiest way to do this is to provide direct subsidies on the route(s) in question. Although effective, this only works whilst the subsidies are in place.

Increasing passenger numbers at key centres is more effective at encouraging and sustaining new entrants to regional airports. It is difficult to grow passenger numbers, or even sustain them for that matter, when airports are allowed to be constructed within 50-100km of existing facilities.

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.

5. Recent actions taken by other Australian governments to limit regional RPT airfare increases.

The Queensland government provides route subsidies that enable a range of towns to have a suitably sized air service and link into regional cities such as Cairns and Townsville. A similar program runs in the Northern Territory linking remote communities.

Conclusion

High cost regional airfares are limiting growth and causing distress amongst local residents. Although the inquiry is a good first step this is not a new issue and there are few easy, affordable solutions to the problem.

To address the issues with a view to a permanent solution requires some policy settings to be adopted by Government. The City believes that the Government should have two main aims which will assist in lowering airfares:

1. Encourage industry to utilise existing facilities to maximise throughput of regional airports. This will enable passenger numbers to grow and make it attractive for new entrants and increase competition.
2. Support intraregional air services to create local hub airports. This provides options for travel routes, efficiency for business and economic diversity for the state.