



Regional Development *Australia*

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Dr David Worth
Principal Research Officer
Economics & Industry Standing Committee
Parliament House
PERTH WA 6000

Dear Mr Worth

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA

Thank you for the opportunity to provide a submission to the Economics and Industry Standing Committee's inquiry into airfare prices on regular public transport (RPT) air routes in regional Western Australia. Regional Development Australia Mid West Gascoyne is part of the Regional Development Australia (RDA) network; a nationwide initiative of the Commonwealth Government. RDA aims to work with State and local government for the betterment of regional Australia and to provide a framework for reporting to Canberra the issues facing the regions. This submission reflects the experiences of Mid West supply chain participants.

a. Factors contributing to the current high cost of regional airfares

It is clear from consultation with key stakeholders that the causes of the current high cost of regional airfares are multi-factorial and complex. Resident populations in non-metropolitan areas are relatively low, resulting in a lower demand volume and economies of scale for air services. This demand, sometimes unidirectional to the Pilbara, is also steadily declining due to the downturn in the resources sector. The demand profile of the regional market also plays a part with a predominance of relatively price insensitive business/corporate consumers, and price sensitive leisure passengers.

There are no direct RPT flights from the Mid West to the Pilbara or Kimberley, so passengers are forced to fly to Perth first and then to these northern regions. This increases costs and adds significant travel time, including lost time at airports and/or overnight stays while in transit.



The prices of regional airfares factor in the costs of operating flights including the availability and price of fuel, airport fees and charges, overnighing for distant ports, labour, air navigation charges, aircraft leasing and administration. Different planes have different cost profiles. How sectors are defined for fare purposes by airlines and competitor pricing also impacts airfares.

In regards to airport fees and charges, most local government authorities (LGAs) report losing money on this infrastructure. While the capacity of airport infrastructure impacts the economics of air services, the requirement for RPT and/or fly-in fly-out (FIFO) security screening represents a significant impost to local government which they must in turn recoup. Added to this the distance from Perth and other centres, and the ease of substitution and cost of other transport modes, LGAs struggle but attempt to keep fees and charges low.

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

From the business perspective, high cost regional airfares increase the cost of operating a business in a regional area which then decreases its competitiveness. This is especially true for Geraldton businesses attempting to operate in the Pilbara or Kimberley. Some businesses would find the costs prohibitive unless they had access to a joint cost sharing arrangement. Opinion is divided on the impact of airfares on tourism. Some believe that expensive fares deter domestic (but not international) tourists from flying, while others think the consequence is limited because most people travelling to or through the Mid West use road transport and caravans.

The more remote a centre is, the more significant the role of flights is. High cost airfares can restrict regional residents from connecting with their families, dealing with health issues and engaging with the outside world. Low income families are particularly disadvantaged. Even average families with children incur time costs and expose themselves to higher accident risks from long distance travel on rural roads. Higher costs are also incurred by the State for providing access for regional patients to specialist medical services in Perth.



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

Regulation is predominantly governed by the Federal government, requiring considerable local government resources to remain compliant. Some believe that engineers are now needed to manage airports.

State government powers are relatively limited, however the policy and strategy position of State government influences administration and decision making. For example, the Department of Transport (DoT) issues restricted approvals for some regional airports for operating purposes and only extends them for twelve months at a time. These short term approvals create uncertainty for both airlines and airport managers.

It is suggested that the current State Aviation Strategy should be critically reviewed by the new State Government to ensure the State's policy and strategy position is not constraining the efficiency of air transport. Consideration should also be given to the deregulation of intrastate air service routes, allowing market forces to determine provision of RPT. State interference/intervention in aviation commerce should be minimised with regulation of RPT routes only in response to demonstrated market failure.

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

Not surprisingly, there were plenty of suggestions for what actions the State and local government could take to address the issue of high cost airfares. Non-profitable routes are currently regulated to ensure the provision of RPT aviation services where traffic is considered too light to sustain open competition. The State needs to create certainty around airlines access to regional airports through longer term approvals.

Conversely, deregulation can stimulate competition, increase choice, introduce more flights, and lowers airfares. Many believe the State should deregulate routes wherever feasible and encourage low-cost carriers to operate on intrastate routes. When current licences for exclusive services expire, wider opportunities for network development and multi-leg intraregional services should be explored, inviting bids from regional carriers.

Geraldton would make an excellent case study to evaluate the impact of going from being a regulated to a deregulated route. Analysing Geraldton's situation may reveal if competition



does indeed result in the anticipated benefits, or would providing better economies of scale to a single operator (enabling lower airfares and a better spread of services throughout the day, locked in through the tender process) have greater advantages?

Allowing RPT passengers on flights chartered by mining companies was proposed at one stage but will require a change in legislation. It is understood that there are difficulties with insurance and liability that have to be resolved to allow this to happen.

Some believe the State should continue to subsidise non-profitable routes, prioritising social ahead of economic objectives. There are social benefits in retaining ownership/operation of regional airports in local government hands (keeping costs down) so a statutory mechanism is needed to enable provide sector participation (other than sale, lease or debt capital) in regional airports.

More proactive interventions suggested were reducing costs and boosting supply and demand. This boost could be achieved through increased funding for tourism marketing or infrastructure, with State government incentives to encourage investment in tourism infrastructure. Aviation is important to the State so the level of resources dedicated to aviation in DoT should be protected and reflect that importance. Smaller airports with RPT services in particular will require ongoing assistance from DoT.

Although these smaller airports are already running at a loss to keep the cost of airfares down, LGAs may need to critically examine their charges with a view to developing a more cost-friendly model. Unreasonable airport costs impact passenger numbers and service viability. Owner LGAs can enter a two to three year commercial agreement/deed with airlines, however State support may be required to ensure airlines do not disadvantage LGAs with their overwhelming negotiating position.

- e. Actions that airlines can take to limit increases to airfares without undermining the commercial viability of RPT services

Federal inquiries have found that RPT airlines are able to counter any inappropriate exercise of regional local government power over regional airports. Offering sale fares in these regional markets is one initiative that carriers can implement to stimulate demand but not necessarily limit airfare increases. The other suggestion was for the airlines to operate the more economical 18-40 seat aircraft which removes the need for mandatory RPT screening, thereby removing that cost pressure from airfare setting.



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

Feedback on measures taken in other Australian jurisdictions was limited with some mentioning the encouragement of low cost carriers to operate on intrastate routes as they do in Queensland. The Queensland government also provides financial subsidies to residents in far North Queensland for air travel.

In summary, the high cost of regional airfares is just one consequence of a bigger issue. There are simply not enough people living in the regional areas of Western Australia. If we (government) are serious about encouraging more people to reside regionally, then serious regionalisation measures need to be implemented.

These measures could include incentives (tax breaks) for businesses to operate in regional areas or legislative changes. Similar to the Queensland Government's proposed *Strong and Sustainable Resource Communities Bill 2016*, Western Australia could consider introducing measures that restrict mining companies from using one hundred per cent FIFO workforces. Or alternatively only allowing FIFO workforces to regional mine sites to be sourced directly from regional communities.

Ultimately, it is industry and business that create jobs and the majority of Western Australians will only move to regional areas, if there is an available employment opportunity.

The Mid West Gascoyne branch of Regional Development Australia anticipates that this submission will be useful in your deliberations into National Freight and Supply Chain Priorities and welcomes further engagement with the Department of Infrastructure and Regional Development.

Yours sincerely,

Barbara Thomson on behalf of
Alan Bradley

EXECUTIVE OFFICER

RDA MID WEST GASCOYNE

28 July 2017