

YOUR REF

OUR REF F12/1574 – D17/14955

ENQUIRIES Scott McKenzie 08 9071 0647

DATE 11 July 2017



Ms Jessica Shaw MLA
Chair
Economics and Industry Standing Committee
Western Australian Legislative Assembly
Parliament House
PERTH WA 6000

Dear Ms Shaw,

RE: INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA

I refer to your letter dated 26th June 2017 regarding the Economics and Industry Standing Committee Inquiry into regional airfares in Western Australia (the Inquiry).

Background of the Esperance Airport

Esperance is located 720km east of Perth along the South East Coast.

The Esperance to Perth route is a regulated route controlled by the State Government. The airport is security controlled and handles around 50,000 passengers per annum and is currently serviced by Regional Express (REX) Airlines under a 5 year State Agreement. Rex operates 19 flights per week.

The airport is managed as a self-funded business entity within the Shire of Esperance and does not draw on Ratepayers funds for the operation and capital requirements. The Shire is heavily dependent on grant funding for major upgrades.

Current operations to ensure sustainability to all parties

The Shire of Esperance has proactively negotiated with Rex Airlines to maintain landing charges with a built in CPI increase for 3 years so that Rex can continue to provide a low price Community Fare.

Please see Attachment 1 for the Shire of Esperance's comment with regard to your terms of reference.

Yours sincerely,

Matthew Scott
CHIEF EXECUTIVE OFFICER

ATTACHMENT 1

Response to Terms of Reference for the 'Inquiry into Regional Airfares in Western Australia' by the Economics and Industry Standing Committee.

Inquiry Terms of Reference	Shire Comment
a. factors contributing to the current high cost of regional airfares;	<p>Regional cities and town do not have the population base or consistent business opportunities to have the same economies of scale as intra state travel between capital cities. A lower passenger volume on smaller aircraft will obviously be more expensive per passenger.</p> <p>Perth Airport taxes are higher than Esperance Airport taxes (per head). The Shire of Esperance and Rex Airlines have negotiated to maintain Esperance Airport taxes with CPI increase only for a 3 year period to ensure that Rex can maintain costs and provide a Community Fare. Perth Airport have also negotiated with Rex Airlines.</p>
b. impacts that high-cost regional airfares have on regional centres- from a business, tourism and social perspective;	<p>The statement above is difficult to answer as it would appear obvious that high-cost regional airfares are going to have a negative impact on regional centres. The first issue however is that we need to measure whether the airfares in question are actually 'high-cost'. There is some research around that supports the anecdotal belief that business and government traffic is least likely to be significantly affected by price. This is due to it being seen as a cost of doing business and time being more easily priced when it clearly links to hours of work saved. This is a much more difficult link for people during their non-work time where no income is derived during any time saved through flying. Admittedly, in an economy where many businesses can locate almost anywhere, high-cost transport does limit the attractiveness of regional locations as it does have to be factored into business costs. This is particularly important for purely service/technical based businesses.</p> <p>While high airfares can therefore have an impact on the profitability of businesses that have a need to regularly utilise the services and may limit the level of service able to be provided by government and not-for-profit organisations is a significant proportion of annual budget is taken up in airfares – these are the organisations that are most likely to continue to utilise airline services even when prices are 'high'.</p> <p>The benefit of an airline service to a destination like Esperance from a tourism perspective is to open up a market for short-stay visitation. A weekend visit becomes possible from the metro area via plane that is unlikely to be seen as realistic if driving due to the (approx.) 8 hour drive time each way. This therefore is where price sensitivity is highest as the cost of visiting Esperance for a weekend is being compared to other destinations that can be accessed either by vehicle or plane in</p>

	<p>a similar time frame. The clearest example is that travel time to Esperance (including check-in requirements) is similar to driving to Margaret River, therefore potential visitors are measuring the costs of visiting Esperance for a weekend (including airfares) against the costs of driving to Margaret River. The more people in the car the less the per capita cost of driving, therefore families are the most likely to find airfares cost-prohibitive.</p> <p>Similarly, from a social perspective, higher costs are likely to limit the usage of air transport. The real impact on this is that higher airfares are likely to significantly reduce the likelihood of people moving between Esperance and Perth (or vice-versa) on a regular basis for cultural, social, medical or other reasons. This can in turn reduce the likelihood of retaining and attracting young people or people with 'rare' skills.</p> <p>Additionally, when looking at airline services to regional area it is important to remember that 35 % of world trade by value are transported by air (Impact of Air Cargo Services on Economic development – May 2015, https://www.icao.int/Security/aircargo/Documents/AirCargoEconomicDevelopment.pdf). While this has no relationship with airfares, the provision of capacity to move goods via air transport is also important from an economic and competitiveness perspective. The lack of air cargo options both impacts on the productivity of local businesses when they have to wait for specialist parts etc. via road transport as well as limiting the ability to get small quantity perishable specialist goods to market.</p>
c. impact of State Government regulatory processes on the cost and efficiency of regional air services;	<p>The State Government Regulated Route limits competition, however we understand that the contract has controls over average fare value.</p> <p>It is also important to understand that any Government Regulation adds cost to business and the cost v benefit of regulating the route should be considered as part of each review of the contract.</p> <p>The positive of the regulated route is that it ensures a reliable service to the community and certainty of market to a single airline.</p>
d. actions that the State and local government authorities can take to limit increases to airfares without undermining the commercial viability of RPT services;	<p>The State Government could increase grants for capital expansions to increase capacity of regional airports, this could allow for increased cargo to regional areas at a reduced cost and therefore allow for community development and new markets for food products, etc</p> <p>The State Government could subsidise airfares or airports to ensure that the benefit of low airfares can be accessed by regionally based passengers.</p> <p>Local Government needs to work hard to maintain efficiencies and keep costs as low as possible. As mentioned</p>

	above, the Shire of Esperance has negotiated a fixed 3 year cost to encourage Rex Airlines to continue with a low cost Community Fare
e. actions that airlines can take to limit increases to airfares without undermining the commercial viability of RPT services; and	Whilst Airlines obviously need to be efficient and utilise low cost aircraft the Shire believes that this needs direct consultation with airlines
f. recent actions taken by other Australian governments to limit regional RPT airfare increases.	The Shire is not in a position to comment on this, it needs direct consultation with the other States