



Australian Government

Department of Infrastructure and Regional Development

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Dear Dr Worth

Economics and Industry Standing Committee - Enquiry into Regional Airfares in Western Australia

Thank you for your invitation to provide a written submission to the Economics and Industry Standing Committee's Inquiry into Regional Airfares in Western Australia.

Australia's aviation sector facilitates both travel and trade, connecting our cities and towns with each other and the rest of the world. It includes large airports such as Australia's international gateway airports right down to small regional and remote airports, which may be council run, or operated by private interests (such as mining companies). There is also considerable diversity across airlines and air cargo operators ranging from major international entities to small family-run businesses.

Aviation supports regional and remote communities, providing vital access to health care, education, legal and financial services. It also supports economic growth in these communities by connecting regionally based businesses to domestic and international markets. The aviation sector has been a key enabler of growth in mining, agriculture and tourism in many of Australia's regions, including in Western Australia.

The Federal Department of Infrastructure and Regional Development (the Department) has primary responsibility for implementing the Australian Government's aviation policy framework. The overarching policy objective of this framework is to help the aviation industry achieve sustainable growth into the future.

This submission provides an analysis of recent statistics collected by the Department, along with an overview of the Australian Government's aviation security framework and remote aviation programs which aim to ensure the continuity of essential regional and remote aviation services.

Market Overview

The most recent data released by the Bureau of Infrastructure, Transport and Regional Economics (BITRE) shows a slight increase of 1.3 per cent in Regular Public Transport (RPT) passenger movements at Australian regional airports for the year ended June 2017 compared to the previous year. Passenger movements at regional airports peaked in the year ended June 2014 at 24.6 million compared to 24.2 million in the year ended June 2017 (a decrease of 1.9 per cent).

However, the Western Australian experience is not consistent with the national picture. RPT passenger movements at regional airports in Western Australia declined 7.0 per cent in 2016-17 compared to 2015-16. Passenger movements at Western Australian regional airports peaked in the year ended June 2013 at 3.4 million compared to 2.4 million in the year ended June 2017 (a decrease of 30.4 per cent).

This is because regional airports in Western Australia have been particularly impacted by the decline in investment related to the resources industry boom. For example, since the peak of the boom in 2012-13, RPT passenger movements at airports such as Karratha, Port Hedland and Newman have decreased by 43.1 per cent, 31.7 per cent and 33.1 per cent respectively.

Survey of Domestic Airfares

BITRE conducts a survey of domestic air fares as published on airline web sites. Fares are collected each month for the top 70 routes based on traffic volume. The lowest fare available for travel on the last Thursday of the survey month in each fare class is recorded for each route. Broome-Perth, Geraldton-Perth, Kalgoorlie-Perth, Karratha-Perth, Paraburdoo-Perth, Perth-Newman and Perth-Port Hedland are the only intra Western Australian routes for which information on fares is currently collected. It should be noted that all these routes except for perhaps the Broome-Perth route are likely to have a significant proportion of mining traffic and therefore, may not be representative of fares on other intra Western Australian routes.

Based on an average of the minimum fares collected over July 2016 to June 2017 for Restricted Economy air fares, Geraldton-Perth was the most expensive of the intra Western Australian routes in terms of dollars per kilometre at \$0.75 and was the 14th most expensive route nationally based on this measure. The most expensive route nationally was Canberra-Sydney at \$1.40 followed by Cairns-Townsville at \$1.36, Bundaberg-Brisbane at \$1.28, Dubbo-Sydney at \$1.08 and Adelaide-Port Lincoln at \$1.06. The cost per kilometre for Perth-Newman was \$0.64, for Paraburdoo-Perth it was \$0.55 and for Karratha-Perth it was \$0.54. The Perth-Sydney route had the lowest cost per kilometre of all the surveyed routes at \$0.13.

When the intra Western Australian routes are compared with other national routes of similar distance, it does seem that the cost per kilometre is higher in most cases. The cost per kilometre for Broome-Perth (1677 km) was \$0.36 while for Sydney-Townsville (1690 km) it was \$0.20. The cost per kilometre for Perth-Port Hedland (1312 km) was \$0.50 while for Adelaide-Alice Springs (1316 km) it was \$0.33. The cost per kilometre for Kalgoorlie-Perth (538 km) was \$0.69 while for Newcastle-Gold Coast (539 km) it was \$0.44. The cost per kilometre for Geraldton-Perth (\$0.75, 370 km) compares favourably with Sydney-Wagga Wagga (367 km) where the cost was \$0.89. It should be noted that distance is only one of many factors that affect the economics of operating a service on a route – passenger volumes and airport charges are some other factors.

Domestic Aviation Policy Framework

The Australian Government does not have a direct role in the day-to-day operation, maintenance or development of local aerodromes (except where local aerodromes also happen to be Defence aerodromes or subject to the *Airports Act 1996*). Local government bodies, and other organisations which manage regional airports, are free to set own prices subject to the council's governance arrangements under relevant state legislation, and compliance with the *Competition and Consumer Act 2010* (CCA) administered by the Australian Competition and Consumer Commission (ACCC).

As a general rule, certain protections are available against business behaviours that limit competition under the CCA, and companies (and individuals) can seek relief from the National Competition Council that administers the National Access Regime to ensure third party access to services is provided by monopoly infrastructure on appropriate terms.

Similarly, the Australian Government does not regulate domestic airline routes. Airlines in Australia are privately owned and operated, and commercial decisions, including decisions about which routes to fly and what to charge, are operational matters for airlines.

Some intra-state routes are subject to state government regulation (including subsidies and protection from competition) in order to encourage stability, route development and continuity of services.

In recognition of the unique challenges faced by aviation businesses which serve regional and remote economies, the Australian Government has programs in place to help ensure continuity of essential air transport services for communities where RPT services are not commercially viable. The relevant programs are outlined below.

Remote Air Services Subsidy (RASS) Scheme

The RASS Scheme provides some 366 communities in remote and isolated areas of Australia with improved access through the subsidy of a regular air transport service. This includes 260 directly serviced locations and a further 106 neighbouring communities which receive mail through RASS ports. The 260 directly serviced locations include 86 Indigenous communities.

The RASS Scheme delivers services to communities in the Northern Territory; the Kimberley, Pilbara and Desert Country regions of Western Australia; Gulf Country and Cape York regions of Queensland, the Anangu Pitjantjatjara Yankunytjatjara Lands and Channel Country in South Australia; and Cape Barren Island near Tasmania.

Flights under the RASS Scheme operate on a commercial basis with fares and charges subsidised to make services accessible for residents of remote communities, including 63 communities in Western Australia. For more information including a list of communities to which services are subsidised under the RASS Scheme, please consult the Department's website:
<https://infrastructure.gov.au/aviation/regional/rass.aspx>

Remote Airstrip Upgrade (RAU) Program

The RAU Program provides assistance for safety and access works at eligible remote aerodromes. On 10 February 2017, the Minister announced funding of \$990,769 (GST exclusive) for six projects in Western Australia under Round 4 of the Program. Round 5 of the Program is currently open and closes on 20 October 2017.

Enroute Charges Payment Scheme

The Australian Government supports regional commercial air operators to provide low-volume or new routes to regional and remote communities through the Airservices Australia Enroute Charges Payment Scheme.

Eligible airlines flying commercial passenger routes can obtain assistance of up to 60 per cent of the Enroute charges incurred. For new routes, additional assistance of up to 100 per cent of the Enroute charges incurred is available for a period of up to three years.

Since the Scheme was re-introduced in 2014, 14 new commercial services have been established between Taree and Newcastle, Mt Isa and Cairns, Newcastle and Canberra, Sydney and Cooma, Mudgee and Sydney, Dubbo and Cobar, Perth and Onslow, Newcastle and Dubbo, Dubbo and Cobar, Armidale and Brisbane, Coffs Harbour and Brisbane, Narrabri – Moree – Brisbane, Newcastle and Coffs Harbour, and Canberra and Dubbo. Some 94 routes are currently eligible for assistance under the Scheme.

The following routes in Western Australia are currently receiving assistance totalling an estimated \$36,000.00 (GST exclusive) per annum under the Scheme:

- Perth to Shark Bay;
- Shark Bay to Carnarvon;
- Perth to Onslow;
- Perth to Wiluna;
- Perth to Meekatharra;
- Perth to Laverton;
- Perth to Leonora;
- Laverton to Leonora;
- Perth to Mount Magnet; and
- Mount Magnet to Meekatharra.

The final level of assistance paid depends on claims lodged by airlines and the number of eligible sectors actually flown.

Aviation Security Framework

The Department is responsible for maintaining the security of Australia's aviation framework. It does this through administering the *Aviation Transport Security Act 2004* and associated Aviation Transport Security Regulations 2005. Under this legislative framework, the Office of Transport Security (OTS), regulates 173 international and domestic airports across Australia and its external territories, and a range of air operators. As of September 2017, this includes 28 airports in Western Australia (refer to list of airports attached).

The Department recognises that those parts of the aviation sector servicing regional and remote Australia can be very cost sensitive. This is because many regional air routes have low demand and high per passenger costs. As a result, their economic margins are small and their viability can be threatened by relatively small changes in operating costs or revenue.

However, the evolving nature of the terrorism threat continues to influence international aviation security standards and domestic settings. Threats to aviation are constantly changing as terrorists plan or attempt to defeat the robust measures that are in place. Even with well developed intelligence, law enforcement and aviation security systems such as those in Australia, it is impossible to predict what the next significant event may be. The recent disrupted terrorist plot in Sydney demonstrated a significant threat to aviation on Australian soil.

Consequently, government agencies involved in maintaining aviation security regularly make informed judgements about where risks are highest. The finite resources of both the Government and industry are then largely directed to mitigating these risks, again based on assessments about where and how measures can be best implemented to provide the most effective security outcomes.

To inform decisions on aviation security settings, the Department holds a number of industry forums, including hosting the Regional Industry Consultative Meeting (RICM). Through RICM, government and industry representatives meet twice per year to share intelligence and information on threats, risks and incidents, and discuss operational issues and security regulatory settings. All regulated airports and airlines, including those servicing Western Australia, are able to join RICM to receive updates and attend meetings. The Department also attends Airport Security Committee meetings hosted by Perth and major regional Western Australian airports, as well as an industry-led forum on aviation security that occurs at least twice a year. Notwithstanding the imminent formation of the Department of Home Affairs, we expect current arrangements to continue.

The Department notes that a number of submissions to the Committee have raised concerns regarding the costs of aviation security, including passenger and baggage screening. Security costs are one component of overall airfares. It is important to recognise that security costs are influenced by regulatory settings and commercial decisions made by industry.

In terms of regulatory settings, the Department works closely with other government agencies and industry to ensure that security measures in place at airports and on board aircraft remain fit for purpose and are risk based and proportionate to new and emerging threats.

For example, the Australian Government currently only requires security screening of aircraft above a certain weight threshold. This approach balances security requirements without placing an undue financial burden (including security screening equipment and ongoing staffing costs) on lower risk, smaller aviation operations, that often are located in regional areas.

While the Australian Government determines overall requirements and standards for aviation security, it is the responsibility of airports and airlines to manage day-to-day security to meet applicable regulatory requirements. The Department regularly conducts compliance activities to ensure organisations meet regulatory standards.

Industry is responsible for making purchasing decisions about security equipment, including screening equipment, to meet regulatory requirements. Airports and airlines also need to manage recruitment, employment and ongoing training of security staff. As a result, airport security costs will be variable, and subject to commercial decisions made by industry, as well as broader factors such as availability of labour and local economic conditions.

To help smaller airports cost effectively deliver security outcomes, in 2016 the Department developed a Regional Aviation Security Awareness Training Package for regional and remote airports. The package can be used to support staff and security managers at these airports to understand the current risk environment, identify a potential threat, embed security awareness into day-to-day airport operations and ensure that staff are prepared for a security or emergency incident. This training package also provides information on government and industry roles and responsibilities for aviation security at Australia's security controlled airports. In February 2017, the training package was made available to 158 regional and remote security controlled airports, including relevant Western Australian airports.

Further, in response to the recent disruption of an alleged terror plot targeting aviation in July 2017, the Minister for Infrastructure and Transport, the Hon Darren Chester MP, asked the Inspector of Transport Security (ITS), Mr Michael Carmody AO, to undertake a review into security at Australian security regulated airports. The review will consider and report on the security settings and regulatory requirements as they apply to security regulated airports. It will also consider whether existing security arrangements are appropriate and whether they can be improved.

Thank you for inviting the Department to provide a submission. Should the Committee wish to discuss the submission further or require any additional information, the initial contact officer for this submission is Ms Ann Redmond (Acting General Manager, Aviation Industry Policy Branch) on (02) 6274 7242.

Yours sincerely



Stephen Borthwick
Acting Executive Director, Aviation and Airports
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Attachment A: The 28 security controlled airports in Western Australia

Albany
Broome*
Busselton
Carnarvon
Curtin
Derby
Esperance
Fitzroy Crossing
Halls Creek
Jandakot
Kalgoorlie*
Kambalda
Karratha*
Kununurra*
Laverton*
Learmonth*
Leinster
Leonora
Meekatharra
Mount Magnet
Newman*
Onslow*
Paraburdoo*
Perth*
Port Hedland*
Ravensthorpe
Shark Bay (Monkey Mia)
Wiluna

**These eleven security controlled airports regularly conduct passenger screening.*