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PHIA Operating Company Pty Ltd
c/o Port Hedland International Airport
PO Box 356
Port Hedland WA 6721

Our Ref: ECON
Your Ref: A622595
Enquiries: General Manager
Phone: 08 9160 0501

Dr David Worth
Principal Research Officer
Economics and Industry Standing Committee
Legislative Assembly of Western Australia
Parliament House, Perth

Dear Dr Worth

Economics and Industry Standing Committee

The Port Hedland International Airport Operating Company Pty Ltd welcomes the opportunity to provide a submission to the Economics and Industry Standing Committee, on its inquiry into airfare prices on regular public transport (RPT) air routes in regional Western Australia.

On the 11th March 2016, the Port Hedland International Airport (PHIA) was leased from the Town of Port Hedland to the Port Hedland International Airport Asset Pty Ltd as trustee of the Port Hedland International Asset Trust, for 50 years.

Background

Back in the early 1990's when the Federal Government was negotiating Regional Airports over to predominately Local Governments, there was an accepted industry practice, which still applies today, whereby the Local Airport costs should not be more that 5% of the Fully Flexible Airfare. The Fully Flexible Airfare is the only constant to benchmark against, and is still the best measure to use. Many variations of discounted airfares come and go.

There are several issues to be aware of regarding past and present information and practices:

- Airlines have very flexible assets that can be put in place very quickly, and can be removed very quickly.
- Airlines can change aircraft types very quickly. The right aircraft for a particular route may not be what is available in its fleet, and at times, the incorrect aircraft types can be utilised on a particular route, distorting accepted practices of benchmarking, such as load factors, which is one way of measuring passenger demand.
- Port Hedland International Airport's local airport costs have generally been 15% below what general industry benchmarking load factors, with the industry being about 75%. PHIA has been historically below 60% for example.
- Airports must invest heavily, well ahead of the demand curve, to meet potential demands that may or may not develop. This distorts normal investment profiles.
- Airports cannot move or reuse these long-term investments, as long as an airport remains an airport.
- There are minimum legislative standards to operate an airport, even if the demand drops. The Airlines have choices with their mobile assets.

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- Airlines do not pay for Airport fees, passengers pay for fees in the cost of the airfare.
- The public are not solely passengers of an airline, they are the passengers of all the service providers with a shared stake in the service to the flying public.
- There has always been a duopoly in WA, with a predominate carrier. Commercial realities dictate who the predominate carrier is. Back in 2001, the WA market was the domain of Ansett at the time, being the predominate carrier.
- As an industrial hub, those who fly inbound and outbound to Port Hedland, will always fly, no matter who provides the service, or how many airlines there are. The vast majority that fly to and from Port Hedland, are not discretionary spends.
- Unlike a tourism market, the airlines are not competing for individual passengers, as they would into tourism ports. In the Port Hedland market, the airlines are trying to attract just a handful of companies, to become the predominate carrier in the market, and then they generally pick up everyone else.
- The Airports Act does not apply to regional airports, and therefore any ACCC recommendations relating to that Act do not apply.
- Airports are not a monopoly. In fact, in WA, Port Hedland and Karratha do compete against each other. For example, we are both competing for International services as well as other Pilbara services from the mining companies. Karratha has just lost services recently to another Airport.
- The Airline did not miss out on the work, it just flies to the other airport.
- The big 4 in Queensland, with Brisbane, Gold Coast, Sunshine Coast and now the Brisbane Wellcamp Airports, are actively competing.
- None of the Airport infrastructure can be moved, or be used for other purposes, unlike an airline that move its mobile assets.

As you would expect over the years, situations always change. It is always important to look backwards to see where we have come from, and why we have what we have.

What has happened at Port Hedland during this time?

<u>Aircraft</u>

- The current terminal was built in the early 1970's to cater for an essentially twice daily F28 aircraft with a weight less than 30 tonne, and seating for about 65 passengers.
- In the 1980's Sir Peter Ables did a deal with British Aerospace to buy the Bae146, a 40 tonne aircraft with up to 80 passengers. Not necessarily, the right aircraft for the Port Hedland route.
- This aircraft was a 25% overload in weight to many regional airport pavements, and they damaged many regional airports, which required significant, costly upgrades.
- In the 2000's the airlines disposed of all their F28 and Bae146 and acquired for example the B717.
- The aircraft was not acquired based on the demands of the area it would serve, it was out of acquisition, then more were bought, to minimise the fleet types within an airline, rather than the right aircraft for the region.

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- The B717 is a 45 tonne aircraft with up to 120 passengers. Again not bought for the route, but acquired and used at regional airports without consultation. It also requires extra runway length due to its poor performance.
- Airlines have also tried E170 and E190 aircraft on the route.
- In the 2000's, airlines introduced the B737-400 and then the 800 series into the WA market.
- The B737-800 is single aisle aircraft and is damaging, from an airfield pavement perspective, to operate onto regional airport pavements, with up to 80 tonnes and 170 passengers, on a single leg and only 2 tyres per leg.
- This type of aircraft has damaged the parallel Taxiway system at Port Hedland. The parallel Taxiway was once the Runway, in the early 1980's, designed for 30 tonnes/F28 aircraft.
- Now in the past 2 years as the recent mining boom has come off, the airlines are now predominately operating F100 aircraft, at 40 tonnes and 100 passengers. This aircraft is sustainable for regional airport pavements, however they have a limited life.
- These aircraft are designs from the 1970's and there are no similar size replacement aircraft on the horizon to replace them.
- It is unknown what the future holds regarding aircraft types. The airlines have plenty of B737-800 and A320 types available. This is the most likely scenario. Larger aircraft put less services into a route, therefore diminishing frequency. It will be the airline fleets that will decide what will fly to Port Hedland, not actual demand and we, as an airport will need to cater for them.

<u>Passenger Numbers</u>

- In the 1970's there were approximately 2 flights per day, a morning and afternoon service, with a maximum of 130 arriving and departing passengers at any one time. The terminal was over designed for its demand at that time.
- In the 1980's there were approximately 3 to 4 flights a day with parallel scheduling, 250 passengers arriving and departing at any one time. Terminal size was about right for the demands on it.
- During the 1990's passenger and aircraft numbers dropped off and the terminal had some minor changes to it. It continued to meet its demand.
- The early 2000's experienced the lowest in passenger numbers, before it started to expand. 911 occurred and the world changed with additional security requirements installed into existing terminal designs that were not suitable for this requirement.
- This added significant pressure on the terminal and its layout, which still happens today.
- Port Hedland peaked in the early 2010's with over 500,000 passengers per annum and had 10 to 12 flights a day.
- On these days, there were 4 aircraft on the ground at once with a potential of over 1,300 passengers arriving and departing in an hour or so, several times a day. This was 4 times more than the design of the terminal intended.
- As of today, Port Hedland can have 8 to 10 aircraft a day, with up to 4 aircraft on the ground at any one time. This has a current demand of almost 1,000 passengers arriving and departing in an hour, several times a day, due to current fleet mix.

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- The current terminal is approximately 2,700 sqm, of which approximately 500sqm is not available for domestic operations, as it is for International usage only.
- If the Airlines were to have their aircraft arrive every hour or spaced, instead of 4 at a time, the current terminal would be more than sufficient. Unfortunately, utopia is not available when designing for capacity. The airlines determine when they fly.

Airport Charges on airfares

There are 3 types of fees that are charged to airlines at Port Hedland, which are then passed onto passengers.

- Landing Fees
- Passenger Fees
- Screening Fees (mandated by Government legislation)

To ensure we compare fairly, and to compare 'apples with apples', we have converted the PHIA fees charged against the weight of the 3 types of aircraft used at Port Hedland, their number of seats, and the differing ways the screening charge is applied.

Back in the early 1990's there was no such Government mandated screening charge, this charge is not an income stream for an airport and, therefore should not apply to the 5% discussion.

Port Hedland to Perth Only, Checked mid July 2017

Landing and Passenger Fee only applies

Airline	Weeks Ahead	Fully Flexible Airfare Price	PHIA AVGE %	Cheapest Discount Airfare
Qantas	1 to 4	$712	3.77	$340
Virgin	1 to 4	$672	3.99	$328
		Discount		
Qantas	1 to 4	$340	7.90	
Virgin	1 to 4	$328	7.28	
		# Including Screening		
Qantas	1 to 4	$712	4.44	
Virgin	1 to 4	$672	4.70	

 # Even including the Government Mandated screening charges, PHIA is still below the 5% benchmarking.

There is much Airline commentary in the media stating that Airport fees are adding significantly to airfares. This is just not true in Port Hedland.

There are also people in the Port Hedland community, who believe that Airport fees are "exorbitant". This is just not true.

- The airport fees that are charged against a fully flexible airfare at PHIA, are less than 4% of the airfare, or less than $30.00.
- These charges are below the industry benchmark of 5%, set back in the early 1990's, for regional airports.

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- Even with the addition of the Government Mandated screening costs, PHIA is under this 5% benchmark.
- The fully flexible airfare, averages about $700.00 one-way.
- Airports do not make income from the mandated Government Legislated screening charges.
- It was not long ago that the Airlines ran screening points in regional airports and when they no longer wanted to operate these, the Airports had to pick up this mandated service.
- Although costs to provide screening services can vary, it is only a small percentage of the airfare generally 1% to 2%. The more passengers that fly, the more the costs can be spread.
- The PHIA fees that are charged are the second cheapest of 7 of the jet serviced ports in WA.
- The mandated passenger-screening fee charged at PHIA, is the cheapest of 7 jet serviced ports in WA.

Summary

There are a range of costs associated with the makeup of airfares that are outside the control of Airports. They include but are not limited to:

- Aircraft types that influence load factors and costs to manage pavements.
- Load Factors can influence the available discounted or loyalty airfares available on any one flight.
- Commercial arrangements with companies can influence schedules and frequency of flights
- How fuel is purchased either by tankering or purchasing locally.
- The ability for airlines to change aircraft types, as mobile assets.
- Mandated Government Security and their costs.

We thank the committee for the opportunity for PHIA to provide the information contained in this submission.

Yours sincerely

Rod Evans

General Manager, PHIA Operating Company Pty Ltd

22 August 2017