

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT KALGOORLIE
THURSDAY, 31 AUGUST 2017**

SESSION ONE

Members

**Ms J.J. Shaw (Chair)
Mr S.K. L'Estrange (Deputy Chairman)
Mr Y. Mubarakai
Mr S.J. Price
Mr D.T. Redman**

Hearing commenced at 8.59 am

Mr JOHN BOWLER

Mayor, City of Kalgoorlie–Boulder, examined:

Mr JOHN WALKER

Chief Executive Officer, City of Kalgoorlie–Boulder, examined:

The CHAIR: I would like to begin this morning by acknowledging the traditional owners of the land on which we meet and pay my respects to their elders, past, present and emerging. On behalf of the committee, I would like to thank you for agreeing to appear today to provide evidence in relation to the committee's inquiry into regional airfares. My name is Jessica Shaw and I am the Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee. To my left, deputy chair, Sean L'Estrange, member for Churchlands; Terry Redman, member for Warren–Blackwood; Yaz Mubarakai, member for Jandakot; and Stephen Price, member for Forrestfield. It is important that you understand that any deliberate misleading of this committee may be regarded as a contempt of Parliament. Your evidence is protected by parliamentary privilege; however, this privilege does not apply to anything that you might say outside of today's proceedings.

Thank you for your submission to the inquiry. Before we begin with our questions, do you have any questions about your attendance today?

The WITNESSES: No.

The CHAIR: Would you like to make a short opening statement about your submission?

Mr BOWLER: I will, thank you, Jessica. First of all, thank you for coming to Kalgoorlie–Boulder and probably even before that, thank you for initiating this inquiry. As you can see from the front page and page 2 of today's *Kalgoorlie Miner*, this issue is a very topical hot one in our community, and I suppose as you go around regional Western Australia. Can I just introduce several of my councillors: Deputy Mayor Allan Pandal, Councillor Mandy Reidy, Councillor Pam O'Donnell—not Kyran O'Donnell; wrong one he is in Parliament!—Councillor Laurie Ayers, Councillor Natalie Coxon and Councillor Glenn Wilson. They are here observing. Councillor Reidy and Councillor Ayers have been very involved for many years in tourism, so it is an issue close to the heart of people who live in Kalgoorlie–Boulder, but for them they see the issue of high airfares holding back tourism in this part of WA. The CEO will now make our formal presentation and we will open to questions after that. Thank you for coming.

The CHAIR: Thank you for having us.

Mr WALKER: Thank you to all of you for coming as well. The city was part of the submission by the Western Australian Regional Capitals Alliance that tried to bring together pretty well all of the owners of regional airports and some of the common views. That submission is with you and stands. But, today we will concentrate on Kalgoorlie–Boulder, because there are differences where we sit with a lot of those airports as well. Whilst there are commonalities in regional airfare problems and regional issues, the City of Kalgoorlie–Boulder and its airport we think is a little different as is the route, so that is our focus today.

In the submission we have given you there is an overview of the city, which I will not go through, but it is important to know that Kalgoorlie–Boulder, as you know, is historic. It is part of the heritage and fabric of Western Australia. We celebrate our 125th anniversary next year since the discovery of gold, and a lot of the fabric of the town, which has been built principally on mining over the years, remains. At the present time we are enjoying a reasonably good economy because of gold particularly and the many other minerals that have been discovered. As a buoyant town with low unemployment, plenty of jobs and a growing economy, we have some different issues than perhaps some of those other parts of Western Australia. We produce as a region some \$8 billion of gross regional product annually, which is about 3.2 per cent of Western Australia's entire economy. In many respects we remain isolated, not only geographically, but isolated from the thoughts of government and the thoughts of many others, so we have an independent attitude to many things that reflect what we do. We are also as a city steaming ahead with our own growth economy. The former government and the city worked together for a growth plan for Kalgoorlie–Boulder. We have now absorbed that growth plan into our own operations. It does not sit as a standalone document. We are fully flying and the key initiatives that come out of that will all see Kalgoorlie–Boulder grow.

It is not traditional local government; we talk about the energy problems, we talk about the education issues, we talk about Indigenous employment and entrepreneurship, and we talk about a range of the broader issues that will help the economy. As a city, we are very economically focused and economically driven, and that applies to our airport as well. The city runs its businesses as businesses. They are separated in some way from our normal service delivery. We have oversight from our council for commercial business activity and we drive it on returns that we believe you would do in the private sector. The airport is a very major part of that, and we talk a little bit about that as well. As a way of background, this is a city that has got jobs. It has got growth; it has got activity. It is clearly got a lot of mining and that translates into a lot of passengers and a lot of activity at our airport as well, and we will cover off some of those issues.

Let me go straight to the performance of the airport, because we know that there is a claim by the airlines that the local government charges too much for fees, and I want to just take you through our performance. We are proud of the fact that over a long period of time the council has invested in this airport. It is a modern airport. It is an efficient airport. We get good passenger numbers here—around 250 000 per year—which makes it very different to some of the smaller airports. Issues in the WARCA submission about viability and the number of flights and all of those things do not apply to Kalgoorlie–Boulder, unashamedly. We are very efficient in what we do. The airport, with that number, only employs seven people, and you look at some of the comparative numbers in smaller airports around Western Australia where they do have many more staff, which makes it inefficient. So, seven people drive an efficient airport.

The CHAIR: So, that is direct employees of the airport? You do not use contractors? Do you contract out any services?

Mr WALKER: Only for cleaning and the kiosk, which is leased out as a sublease, but we drive it all ourselves.

The CHAIR: Okay, thanks.

Mr WALKER: In 2016–17, the year just gone, the net operating profit of the airport was \$1.88 million, and that \$1.88 million was after a return on investment to the city based on commercial principles and after we had applied full depreciation to the airport for the future and returned corporate overheads, which were only \$100 000, because we do not try to offload our overheads there. Capital expenditure for the year was \$834 000, because it is a highly expensive piece of infrastructure and this was a low-spend year. So, the total surplus, roughly, was about

\$1 million in cash. We noted, however, that about \$1.3 million is earned from revenue from ancillary services, rather than particularly airline charges and the like—so, advertising, vehicle rental concessions and car parking, which was newly introduced with massive success. It was an introduction not to make money, but to stop all the FIFO workers who use the airport and clog the airport from parking there and leaving their cars for the 10 days while they are off in Perth. We went from 100-plus per cent occupancy to about 22 per cent, which has meant substantial savings down the track. But over the next 10 years, the city will be required to expend on our long-term financial plan \$13.4 million in capital expenditure. So, even though you might make that sort of surplus, we have to provide for the very large amounts of capital expenditure that will come in. Having said that, and I think we run that successful business, we did carry all the costs in the City of Kalgoorlie—Boulder, and this is an airport that is a regional hub. It services the other shires; it services the other towns; it is used extensively, obviously, by the mining sector to bring workers into the broader region; and it also supports a lot of the ancillary uses, including a very large number of government employees who travel to the goldfields region to conduct their business on behalf of the state. But the airport has to remain viable. It has to stay at the high levels of maintenance and we have to provide for those economic downturns which are there.

That I think throws up the first question for consideration. Given that the airport of Kalgoorlie—Boulder can receive a quarter of a million passengers a year, we are able to make it a successfully run business and financially viable, it is staggering that the airlines cannot also make adequate returns off the route without charging the fares they do. Understanding the profitability of this route would be useful, and we, of course, do not know the breakdown of where their profits and losses are, and we will ask the committee to look at that as one of our calls. But if you cannot make money in Western Australia off the route to Kalgoorlie that carries loads that we believe are in excess of 75 per cent or 80 per cent, with multiple flights every day from both airlines, then we would be surprised.

[9.10 am]

Kalgoorlie seems to be one of the airports that carries the brunt of very high fares. So when we look at the key issues affecting the airport, I think the council thinks there is really only one—that is, the high and/or exorbitant airfares charged to those people who are not travelling on corporate rates or negotiated airfares or who are travelling on a ticket that has a through connection and cannot book in advance. The airlines will tell you that there are \$179 fares in there, but you try finding them; it is like finding the proverbial needle in the haystack. If 75, 80 or even 90 per cent of those people coming to Kalgoorlie are on negotiated contract rates and/or through fares—so if you go from here to Sydney or Melbourne, the proportion applied to this route is low, or if you go overseas on connections, it is low—that means in the yield management systems of the airlines that the only way they are going to get to the average, which they tell us is about \$235 a fare one way, is by using these low fares and topping them up with very high exorbitant fares which are paid by the people who live here, the people who are last ones to buy. So, it is for those people who live and work in the region who have a need to visit for family or business reasons either Kalgoorlie or Perth that the problem is there.

As you would know, I am sure you have been told by many people, if you live remotely and you have an urgent need for family business, health business, business itself or social reasons, you are not buying three months in advance. You have to go and you have to go pretty soon, and that is where the yield management practices of the airlines cause us great concern. If we factor in all those fares that I mentioned before, then those paying the highest prices are those who live here or those who want to visit people here or small business. We have appended, Madam Chair, some work we have done over the last six or so weeks looking at internet-based fares for two days hence and seven days

hence, because that is the sort of buying that people do, the normal expected return airfare is between \$800 and \$1 200, which when you advertise a return trip to London from Perth at less than that, makes us beggar.

The CHAIR: I am just conscious that I already have a whole backlog of questions, as we go along, so I might just quickly ask you while the opportunity presents itself: In the studies that you have done, have you noticed a marked difference between the carriers? What would you observe about the carriers' pricing? Is there a big difference?

Mr WALKER: I think if you asked, everybody around here, we would say, "It's Groundhog Day, and is that Ansett and Qantas flying out there?" The timetables are parallel and the pricing is parallel, except on the odd occasion. They are very close. At some of the peak, some of the extreme, times when airfares go as high \$700 one way, then you might find the other airline might be at \$500 or \$600. So there is a difference at that peak, but mostly they are common.

The CHAIR: So in terms of competitive tension?

Mr WALKER: I would argue that there is very little competitive tension at the present time.

The CHAIR: Okay; thanks, Mr Walker.

Mr S.J. PRICE: Mr Walker, you mentioned the word "remote". Do you consider Kalgoorlie–Boulder to be remote or regional; and, whichever answer you give, why?

Mr WALKER: We are a regional city, with a regional responsibility for the broader goldfields region, but we are certainly remote from Perth—a six-hour drive, a seven-hour *Prospector* train run, which are the only other options you have, I think makes you remote, and the only way to get here quickly is via the air.

Mr S.K. L'ESTRANGE: Thank you very much for your submission. Looking at page 11 of your submission, I just want to commend Mr Bowler and Mr Walker for putting forward to the committee some possible solutions, which we can consider, obviously, when we put forward our recommendations in our final report. For me, it is great to see that you have obviously, as a council and as a community, given real serious consideration to this issue and have provided what seem to be some reasonable approaches to how to deal with it. I thank you for that.

My question relates also to page 16 of your submission, and I note here that you have actually made requests for separate meetings with Mr Alan Joyce and Mr Andrew David of Qantas, and Mr John Borghetti and Merren McArthur of Virgin airlines. Have you had any responses to that, to date?

Mr WALKER: We have been totally ignored by Virgin. They have not even acknowledged the letter, and we have followed it up by making sure that it got to people, so they know it is there. Qantas, on the other hand, have been very generous in meeting with us and discussing possible solutions. They had one initially with the mayor and then I think I have had four telephone-type conference meetings since.

Mr S.K. L'ESTRANGE: I notice also that you have corresponded with the Premier, thanking him for pushing for this committee to do this inquiry. Have you got a response from the Premier with regard to the letter you sent yet?

Mr BOWLER: Just saying that you are going to be doing this. His response came just before, I think, you started.

Mr D.T. REDMAN: One more question, John. Do you have any of the resource sector running charter planes into here for moving personnel?

Mr WALKER: Mostly it is commercial, but some of the resource sector have their own airfields, and they take charters straight into their own mines. There are a few other mining companies that are looking at also trying to do that, which we of course do not support. They are looking at putting airports in as well.

Mr D.T. REDMAN: Just while we are talking about that, you would know where those airfields are. In your understanding, would it be reasonable to expect that it would be possible for them to bring their planes commercially into here, and then use buses or other forms of transport out to those mines. Are they close enough to do that?

Mr WALKER: It is, but the problem we have at the moment is that we are losing the argument and it is nothing related to the inquiry, but the condition of the roads to mine sites is such that the Saracen mine, for example, which is looking at doing an airfield at the moment, the road there is difficult. They cannot move goods. It is a long time because it slows down, particularly with adverse weather, and it takes hours to get their workforce in and out.

Mr D.T. REDMAN: How far is that, as the crow flies?

Mr BOWLER: An hour's drive. An hour and a bit drive. There are some mines—Tropicana, the big mine further to the east. We can see that that is too far and they fly direct from Perth to there, and we have some flights from Kalgoorlie to there—smaller flights and of course all the industry support comes out of Kalgoorlie on the road that the CEO says is not that good, but we are calling a meeting this month, in a week's time, of all those users to try and get a better solution.

Mr D.T. REDMAN: So for the most part the resources sector demands here use the commercial traffic between Virgin and Qantas?

Mr WALKER: Correct, and there are always buses queued up at the airport to take them to site.

The CHAIR: Mr Walker, do you want to continue taking us through your submission, or can we go into questions?

Mr WALKER: If I can do it quickly, Madam Chair.

The CHAIR: I am just thinking of the most efficient use of our time here today, so if you want to highlight other parts, and then we can launch properly into questions.

Mr WALKER: There are a couple of points I would like to make perhaps. On the issue of local government airport charges, we challenge the assertion, and the point I am making, the simple point is—and there is that appendix that we put there where we have tried as best we can to calculate the percentages of local government charges for all of the airports in regional Western Australia to see what it would do. We would argue that in Kalgoorlie–Boulder's case, as best we can estimate, the local government charge is around six per cent of the total fare. Bearing in mind our financial position, could we trim that? Possibly, but we would be at risk with our asset management, as we talked about. But even if you took two per cent off and reduced it by a third, two per cent on an \$800 return fare is nothing, and therefore it will not affect the airfares generally, and frankly we do not trust the airlines to actually pass it on anyway. So we think it is a furphy, and we make that argument, and we have given some figures for that. We would argue strongly that that should be discounted.

In terms of government support—if you want to move to the next page—I think generally we are a free market organisation. We believe in open skies, and we believe in deregulation as a principle. The people of Kalgoorlie would say, “Why don't you regulate this route and give us cheap fares, but leave the rest of the world open, so that we can get that \$1 000 fare to London?”, so there are contradictions. But we say that if the airlines do not play the game properly, and they do not respect

regional and remote people, then the government should look at some form of regulation, and I am sure that the mayor will make some comments in general discussion, but that is our view. The support we think we need from you is to really oversee what is going on. It does not appear that the government knows much more than we do about the data around airfares, how they are calculated, how many people are flying and what the charges are. Like all things in government, if you do regulate, it is important for you to play a role in getting that information and putting it out in the public arena so normal commercial pressures can apply.

The CHAIR: So on that issue, Mr Walker, there are regulated and unregulated routes, and on regulated routes the government does have the power to compel the production of a broad range of information types, in addition to tendering for the route and then establishing fare classes. That is an intervention that a state government could make on this route. How appropriate do you think it would be to re-regulate the Kalgoorlie route?

Mr WALKER: The mayor has got a different view than I do, so I do not mean that in a bad sense, but —

The CHAIR: By all means, you can both offer your views.

Mr WALKER: The point we are trying to make is that the market should determine it. We believe in supply and demand. If there was tension in competitive terms on the routes, if there was respect for these high gouging rates that come, if those things did not exist, it is better left alone. But if they are not prepared to do that, and if the people are required to pay the sorts of fares there are, then it should be considered.

[9.20 am]

The CHAIR: Because on your evidence, there seems to be a bit of an absence of competitive tension there.

Mr WALKER: Absolutely. I think that is the view.

Mr BOWLER: My attitude is that everything in local government—every new purchase, every new contract—we do it through tender. We believe that that structure and that system gives the ratepayers the best value for money. A regulated route would give that. You seek tenders. All the airlines would then tender for a one-year, two, three or four-year contract and you would pick the best tender. It is not something that local government is not used to. The trouble is that we do have thin markets and it is really only a duopoly. We see with just Coles and Woolworths, duopolies do not really work that well.

Mr D.T. REDMAN: Just by extension to that, the suggestion in your commentary there is that you go from an unregulated to a regulated route and tender it out, so you would have only one airline or one carrier tracking that path. Given, from your submission, that there is a lot of traffic largely filling two carriers for a number of trips a day, are there any other tools do you think in the government's toolbox in terms of some light touch that might expose the issue and thereby get a bit more competitive tension in there?

Mr BOWLER: It is not only government. One of the suggestions by one of our councillors was to set up our own airline. Maybe in conjunction with some other regional airports, say, Broome or Port Hedland or something, the three councils would own their own little airline and we would just hire planes with staff and have a more compacted airfare structure. Maybe that is just a threat that might help us deal with the airlines, I do not know.

Mr WALKER: Notwithstanding whether it is a regulated route or a deregulated route, I do not think Kalgoorlie would want to go to an Esperance or Albany situation in which we only have Rex. It would

not cope. Notwithstanding which one, we do think the government has a role to play with the information you can obtain on a regulated route that perhaps should be available on a deregulated route as well. I think that is important.

The CHAIR: So the transparency you think could deliver the sort of downward pressure that you are seeking?

Mr WALKER: I believe so. We could argue our case better. The other thing we put in about the government trial is that air is just a transport mode. There is rail, there is road and there is air. Government at state level is very supportive of the regions and rural Western Australia in road funding, road grants and the rail network, yet there is no support in the air movement. Whether or not there is some infrastructure capacity from government that would help us, that would be good because we have to provide that \$13.4 million, for example. It is out of the profits of the airport and if we do get a downturn, that would be difficult. Why would government not support air infrastructure as much as they do road or rail infrastructure? I think that is an important consideration as well.

Mr D.T. REDMAN: You said that the \$800 to \$1 000 return flights are quick spends out of the market. I understand that. A \$100 flight is probably unrealistic if you are going to get lots of people. What do you think is the price point that it becomes acceptable for people?

Mr WALKER: The price point is the average fare that they maintain they deliver on this route—\$235.

Mr D.T. REDMAN: Is that what they say?

Mr WALKER: That is what they say.

Mr D.T. REDMAN: So that is the average fare, which costs \$235. The next question is—I cannot remember whether you said it or not, but the resources sector is a substantial user. Presumably, they have block bookings. Are you aware if they have or have not and therefore at a price point that they can say is fixed? Therefore, they have to make up the average and the rest. Is that how it works here?

Mr WALKER: The yield management structure of airlines, which operates globally, as you know, theoretically has cheaper prices at the start a long way out and it gets higher as you go through. The best I can tell—again, I caveat given I am under privilege and you can put me in jail—is that on the Qantas side, and it is relatively 50–50 flying, there are about 10 000 or so flights annually that relate to the local resident. The remainder are contracted fares or through fares. To get to a \$235 average, we do not know what those contact rates are but that is why you are paying \$600 one way as a resident to bring the yield up to that average, which is the average they need by their load.

Mr D.T. REDMAN: So that is 10 000 locals out of how many total?

Mr WALKER: Ten thousand is half of 250 because it is one airline, so about 10 per cent.

Mr BOWLER: One of the things, once again, is that I do not have anything hard and fast on the cost but the general advice around the goldfields is that FIFOs pay about \$195 to \$205, so about \$200 a flight. Have a guess how they get to those prices. Because they seek tenders from the two airlines.

The CHAIR: Do you have a sense of the proportion of traffic that is FIFO that is tourism related, that is local community related?

Mr WALKER: No. We have this knowledge that around 10 per cent or thereabouts are genuine internet buyers—local people. The split between the rest is not known. Tourism numbers are not high generally in this area, which is a major problem. We can address that in other ways. It is primarily FIFO. You only have to get on the plane and see the high-vis numbers. Loads are roughly 75 per cent full across the entire year, of capacity.

The CHAIR: So the baseload revenue, if you like, is coming from the mining sector and basically the cherry on the cake is being paid for by the people of Kalgoorlie?

Mr WALKER: Correct. That is very much the argument. The other one is the through fare. So if you book from Kalgoorlie to Sydney, you will see the fare and they might charge you \$150 for this first leg and then the balance is on the second leg. Or if you book an international fare, it will be \$100 on this leg and the balance on the national fare. They will feed into their averages. If you feed those throughput fares and you feed the contracted fares at that number, to get to \$235, you can only do it by charging \$500 or \$600 one way for the people that we represent, who, in fact, own the airport and are the shareholders of the airport.

Mr D.T. REDMAN: At some point we are going to interview the airlines to ask them the same sort of questions. If, as you say, that is an accurate assessment of how the full fare arrangements happen, if you have some sort of government intervention, you are effectively going to shift the dial from the resources company now that has the contracted price, which is their bread and butter for those two airlines, because that is the lion's share of their flights, having to pay more for the benefit of the locals. Would that be the consequence of any intervention?

Mr BOWLER: I would hope it is. I would hope that that change in economic situation leads to more workers spending the night with their family. Instead of being FIFO and away from their family for a fortnight at a time, they live in Kalgoorlie and sleep with their family every night.

Mr D.T. REDMAN: I could not agree with you more, John.

Mr WALKER: If—and we do not know this, but we presume—the Kalgoorlie route is profitable, because it should be on the numbers we know, that means we are subsidising perhaps some of the non-profitable routes. Again, this is a municipally owned airport with all the risk taken by the city and it is unfair that the people who are copping that end result are the locals who are not in any position to influence the fares.

Mr S.J. PRICE: Mr Walker, just going back to the fees and charges of the airport, on page 9 of your submission you state that in Kalgoorlie's case, the passenger airport charge license fee is \$25.95, excluding security. Then your little table on page 19 refers to a terminal service levy and the landing fee, which is more than that amount. I am just curious: is that \$25.95 based on a Fokker 100 versus the table, which is a 787?

Mr WALKER: We do not get Fokker 100s. They are basically 737s.

Mr S.J. PRICE: We flew on a Fokker 100.

Mr WALKER: Did you? Qantas?

The CHAIR: Virgin.

Mr WALKER: The \$25.95 is the amount we agree with the airlines is the charge that is applied to the ticket price as the passenger fee. The security charges are pure throughput. It comes in and out. We are not even allowed to make a margin on running that. Some of the numbers in the back appendices are averaged to a particular plane to get a comparative rate whereas the mix of planes that come in affect it.

Mr S.J. PRICE: This is your table. We have a B787 at the top, which I think is meant to be a B737-800.

Mr BOWLER: The eight is supposed to be a three.

Mr S.J. PRICE: You are saying it is \$23.45 for a terminal service levy, a landing fee of \$11.73, so collectively you are at \$34 or \$35. Then screening on top. For that size plane, it has to happen anyway.

Mr WALKER: It comes and goes. The way that works is that we pay the bill and the airline refunds. We all agree that that is not something that we take into the calculations.

Mr S.J. PRICE: So that is?

Mr BOWLER: It is about \$35 a head. Because there is the individual fee, which is \$25, and then when you take the part of the overall plane weight, where we charge the weight, it works out to be another \$10. If you go through the regional cost structure, some airports charge more on the first part and less on the second and vice versa. If you add the two together, we are generally in the lower sector.

[9.30 am]

Mr S.J. PRICE: That is fine. I totally support the fact that airport charges have nothing to do with this.

Mr D.T. REDMAN: One point of clarification: you said the \$235 average that they said, is that a one-way fare?

Mr WALKER: Yes.

Mr S.K. L'ESTRANGE: You have got the range in one of your annexes of between \$169 through to \$685.

Mr WALKER: Yes. It is interesting that since the inquiry was announced, the daily check of fares has many more \$179 and \$189 fares than it used to. It is also the quietest part of the year. It follows Diggers and Dealers where you actually pay \$1 100 one way, but this is the quieter part. I do not have any empirical evidence but I think it is not coincidental that there are some additional lower fares appearing online. Maybe if you keep going, we might get permanency!

The CHAIR: We will just have a perpetual inquiry!

Mr WALKER: I will not go through the possible solutions, but I just want to touch on one. Capping, we put that in the paper; that is the easiest way, obviously, an important way. But I do not discount the responsibility of the local authority to negotiate with airlines about fares and to try to find solutions without the government being involved. That is why we were talking to Qantas and we hope to talk to Virgin. We are still hopeful that might produce a positive result as well.

The CHAIR: One of the strategies that has been suggested to this committee to, I guess, reduce the cost of airfares is to broaden the passenger number base by branching out into tourism, the theory being that more bums on seats means that generally prices will come down and larger aircraft will be able to land. Has the city looked into partnering with local tourism providers, accommodation providers and the airlines to bring cheaper fares into the city?

Mr WALKER: I think you are meeting the tourism group today at some stage and we are really allowing them to put the case strongly but we are at one in Kalgoorlie. Our tourism group—one of the groups of our economic growth plan is tourism and cross-representation, so I think their view is going to be strongly put there. Package deals for tourism, the way you describe it, all very important, all happening, although, again, look at the numbers in the planes and there are not as many seats perhaps as some of the other routes, but we fully support that. Tourism is one of the key drivers to offset the dependence we have on mining—57 per cent of our economic activity is in mining, so diversifying our economy is really important and we would say tourism is a prime area to look at. But I am sure some of the people at the end of the room and others will give you the common message when they meet with you later today.

Mr BOWLER: Just going back to capping, my take on it is that the extreme fares probably represent less than one per cent of the fares that they sell, yet that image permeates its way through our community, and probably all regional Western Australia, that airlines are rip-offs. Yet I believe it is less than one per cent and I think at our meeting one of the executives from Qantas concurred. We are saying, you hardly make any money out of that. Your image suffers, regional air travel suffers and, particularly here where we have a train and a six-hour drive is not too bad—I drive it myself—people say, “I won’t even look at the airlines this week; my wife and I will just get in the car or get on the train.” So, I think they are losing out on business for less than one per cent of their sales. If they could bring those extremes down a fair bit, maybe the image would be greatly improved.

The CHAIR: Have you engaged with either of the airlines at all on the availability or whether they would be willing to make compassionate fares available; and, if so, what was the response? I guess what are your general observations on the carriers around their social licence to operate and the degree to which they are serving the community they are operating in?

Mr WALKER: I am at a slight disadvantage, Madam Chairman, because whilst you have got your rules about what I say and do not say, I am also under a commercial confidentiality agreement with the discussions with Qantas.

The CHAIR: Fair enough.

Mr WALKER: Those issues are partly in discussion. As I say, we have had no discussion with Virgin because they will not come to the table. But I think they are the sorts of discussions and one of my solutions where we have an obligation to talk to the airlines, they are the sorts of issues you talk to them about and, hopefully, bring about with common commercial sense, which has not yet been displayed, but I do remain confident that there will be some progress in the short term that may well address those issues.

Mr S.J. PRICE: Something that has not been raised, but it has previously with us. I am pretty sure I understand a lot of the industries out here so I am guessing I might guess the answer, but air freight—is that an issue in regard to impacting on businesses in town and the ability to get stuff here ASAP, so to speak, as opposed to taking air freight versus road freight?

Mr WALKER: I think you know the answer. We do not know the freight numbers, so we cannot even answer what volume of tonnage is coming but, clearly, most freight comes on the road.

Mr S.J. PRICE: That is the key tonnage.

Mr WALKER: Yes. Again we come back to what role you can play as a government. If you are able to find information about how the yield management systems are structured, whether that one per cent that the mayor talks about is right, what sort of tonnage is there, then by unpacking these broad fares, you can actually start to address the issues. We are at a disadvantage.

Mr D.T. REDMAN: This is probably a question at the fringes because I think we have identified that the airport landing charges are not a significant contributor to the flights, but you put in as a possible solution, number 5 there, talking about government support for airport infrastructure. That is both the tarmac and the other side, your terminal side, and it was put to us by another presentation that any government support for that, the City of Albany in this case, said they would be hell-bent on trying to transfer that through to a fare. Would that be the case for the City of Kalgoorlie–Boulder, that if you got that support and therefore did not have the same demands on replacement costs and therefore depreciation, you could pass that through to some savings on that side, albeit at the fringes?

Mr WALKER: Unquestionably. The cost of a reseal at our airport is potentially \$12 million, so you have to have reserve funds. You have to have yourself ready for that occasion if something goes

wrong, because if something goes wrong with an airport tarmac, you have to fix it. If there were ways around not having to make that provision, then clearly it would reduce our need to make those profits and in turn could be passed on in fees.

Mr S.K. L'ESTRANGE: Just in practical terms, on the one hand you would try and negotiate with the airlines to get a lower fare locked in place for the City of Kalgoorlie–Boulder. Are you also saying that if you could get the benefits of government supporting the long-term infrastructure cost requirements, you would then create some sort of subsidy scheme on top of the reduced fare that have you locked in with the airlines?

Mr WALKER: Correct.

Mr D.T. REDMAN: In the paper today, it talked about the value of what is happening in goldmining now and the potential for the state government to bring down some royalty changes in the gold area. Thinking that is probably a big part of the Kalgoorlie market—I know there is a diversity of mine sites here—and they have these block bookings in airfares, what is your understanding of how important airport and air transfer savings are in the context of profitability in the mining sector? In other words, if government intervention was to have an uplift in the value that they are having to pay for an airfare, is that going to have a tangible impact on the resources sector in Kalgoorlie–Boulder?

Mr WALKER: I probably should defer to the former minister for mining!

The CHAIR: There are two in this room at the moment!

Mr D.T. REDMAN: I made the point before that if you have government intervention, one of the groups that will be impacted will be the resources sector and what they pay for airfares, because it would appear that the block bookings of the resources sector is something that is impacting on the local use of the flights. If there were any changes on that front, would that have a tangible impact on the profitability?

Mr BOWLER: I am told that an average FIFO is around \$1 100 a week—airfares, accommodation, food, bedding, linen and all that, so if you add, let us say, \$50 to get \$1 150, it is probably not a huge impact. I do not think any mines are going to close because of it, but, like anything, every little cost counts and suddenly a mine tips over and goes from profitable to unprofitable and it closes.

[9.40 am]

Mr WALKER: Particularly on the prospecting side in the junior sector. Whatever impost you put on business, the likelihood is that the business will not be as profitable and then they will make different investment decisions. In a place like Kalgoorlie where you need prospecting and juniors as much as the big profit makers, those sorts of charges can hurt.

Mr D.T. REDMAN: Do you think the committee should have an eye for that impact in any recommendation as it applies to government intervention?

Mr WALKER: Well, who knows what the government is going to do?

Mr D.T. REDMAN: Irrespective of what government does, the committee makes recommendations.

Mr WALKER: In any inquiry on airfares, given that the majority of people who are flying are related to mining, then it has to look at that because it is an impost cost.

The CHAIR: Whether we have the capability to do that in terms of resourcing is an open question.

Mr D.T. REDMAN: But that does not impact recommendations. Recommendations are our remit.

Mr S.J. PRICE: Do you still have a flight to Adelaide coming out of here?

Mr BOWLER: No. We have one to Melbourne. It used to be both. Qantas flew Kalgoorlie–Adelaide and back once a week, and Virgin to Melbourne on a Friday and back on a Sunday. It was pretty popular, and that continues. You go there on a Friday, see a show, footy Saturday.

Mr S.J. PRICE: How is that priced?

Mr WALKER: I flew there last weekend. Kalgoorlie–Melbourne direct and Melbourne–Kalgoorlie back. It cost me \$492 return, and to go to Perth for the weekend would have cost me \$800 or \$900. People in Kalgoorlie would rather go to Melbourne for the weekend—particularly to see Collingwood play, or something really exciting—than go to Perth. But unfortunately you have to go to Perth because of medical, family or other reasons. I do not know how the same airline can have prices that different to a port that is three times as far.

Mr BOWLER: It is a popular route.

Mr S.J. PRICE: But the Qantas one to Adelaide has stopped?

Mr WALKER: Yes, that stopped—how long ago?

Mr BOWLER: Ten or 12.

Mr WALKER: Yes, 10 years ago.

The CHAIR: We do have the option to move into closed session if anybody wants to pursue anything or if there is any willingness to discuss the commercial-in-confidence issues that Mr Walker raised.

Mr D.T. REDMAN: Are you asking the committee or asking the —

The CHAIR: I am asking whether there is an interest in doing that. The information that is taken in closed session is used to inform the committee in a very general sense, but is not made public. It is a way to maintain the commercial confidentiality that you have.

Mr D.T. REDMAN: Through the Chair, perhaps we could ask the City of Kalgoorlie–Boulder whether they think there would be benefit to the committee in a discussion like that.

Mr WALKER: If I was guaranteed that it goes nowhere for a period of time, and is taken in confidence without anyone present, then I would be willing to share with you, because I think it is a very important piece of information.

The CHAIR: It is certainly something that I would like some more information on.

Mr WALKER: But you have it here. Evidence is important. My signature is on a legal document.

The CHAIR: Any disclosure of that would only come from members or from the secretariat, and it would be a contempt of Parliament, so we take that incredibly seriously. If you are amenable to it, we will close the open session and move into closed session. We will let everybody know when we are ready to reopen.

[The committee took evidence in closed session]

[9.58 am]

The CHAIR: We have moved from closed session now back into open session with the City of Kalgoorlie–Boulder. If there are no further questions from the committee, I will perhaps round out with one. One of the terms of reference specifically seeks input on actions that the state government might usefully take to exert downward pressure on airfares. Do you have any views on things the state government and, indeed, the commonwealth government, could do?

Mr WALKER: Madam Chair, they are included in our submission with suggestions, so I would rely on that.

The CHAIR: Okay; perfect. In that case, I will proceed to close today's hearing.

Thank you for your evidence before the committee today. A transcript of this hearing will be emailed to you for the correction of minor errors. Any such corrections must be made and the transcript returned within seven days of the date of the letter attached to the transcript. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence. Thank you.

Hearing concluded at 10.00 am
