



Review of Regulated Regular Public Transport Air Routes in Western Australia

Position paper – for public comment



MINISTER'S FOREWORD

The State Government recognises the importance of aviation to the economic and social development of Western Australia. Through the release of the draft Western Australian State Aviation Strategy (SAS) in late 2013, the State Government has adopted an active strategic policy approach to aviation which I have continued with this review of intrastate air services. The SAS acknowledges the development and growth of quality air services are essential for regional communities in Western Australia. Our main objective is to ensure community access to Regular Public Transport (RPT) air services that are safe, affordable, efficient and effective.

In July 2013 the Department of Transport commenced a review of Regulated RPT air routes in WA (the review). As part of the review this position paper considers the future aviation needs of both regional communities and the State. A new approach is proposed for air route regulation beyond February 2016 when current regulatory arrangements between the State Government and airlines cease. Hence, this position paper aims to provide community and industry stakeholders with the opportunity to consider the State Government's proposed aviation regulatory approach in the future. Eight regulated routes in WA are examined with recommendations for each route. In addition, a charter policy is proposed to ensure that charter air services do not detract from the viability of RPT air services, while imposing the minimum cost on the resources industry — a key contributor to WA's economy.

The State Government's position is to take a light-handed approach to air route regulation in the future. Less regulation of air routes, where feasible, increases the opportunity for competition, reduced airfares, greater diversity in air services, and more choice for travellers and reduces administrative 'red tape' costs. This, in turn, could open up new opportunities for local communities, the aviation sector and the tourism industry. Reduced regulation could increase travel in our State by national and international travellers. Regional air routes in other parts of Australia sustain regular air services with much lower traffic volumes, without government regulation or subsidy. On the other hand, the State Government's position is also to protect vulnerable air services for remote and regional towns within the State. In such circumstances regulation of air routes can ensure continued air access for communities.

The position paper has been developed based on statistical data and feedback from preliminary consultation undertaken with airlines, charter operators, local governments, state government agencies, the resource industry and peak bodies. There has been significant engagement with stakeholders and communities through Regional Aviation Community Consultation Group meetings, and this engagement will continue as an important process in understanding the future aviation needs of regional communities in WA.

I am pleased to release the position paper for public comment and I look forward to the results of the consultation period over the upcoming weeks.

Hon Dean Nalder MLA
Minister for Transport



EXECUTIVE SUMMARY

Strategic context and role of aviation in Western Australia

The aviation industry in Western Australia is a key driver in the economic and social development of the State. Air services are an essential mode of transport for regional communities, the resource and corporate sectors, as well as the tourism and leisure markets in connecting passengers with major population centres such as Perth.

In line with the draft State Aviation Strategy released in 2013, the State Government has taken an active strategic policy approach to support the economic and social growth of WA through safe, affordable, efficient and effective aviation services for regional communities. The State Government prefers a light-handed regulatory approach for regular public transport (RPT) air routes in WA and aims to:

- ensure an adequate level of RPT air services on regional routes in WA;
- foster competition on RPT routes potentially leading to reduced airfares and more choice for consumers;
- ensure charter air services do not detract from the viability of RPT air services;
- impose minimum costs on the resources sector and charter operators in the State;
- reduce the costs of unnecessary subsidy and administrative 'red tape'; and
- minimise direct costs to the State.

Purpose of this document

This document forms part of the review of regulated Regular Public Transport (RPT) air routes in Western Australia (the review). Since 2011, three airlines — Skippers Aviation, QantasLink and Virgin Australia Regional Airlines (VARA, formerly known as Skywest Airlines) — have been operating on the protected air routes in WA under deed arrangements with the State Government (except the Perth-Derby route, which is protected under an exclusive aircraft licence). The deeds are in place until 27 February 2016 and have an option for an extension of up to five years.

This position paper proposes the regulatory approach to eight RPT air routes in WA beyond February 2016. The regulatory approach proposed in this document recognises the economic and social context specific to each regional route and is based on preliminary community and stakeholder feedback, passenger survey data and other statistical reports. The position paper also reviews the State Government's regulatory approach to charter air services.

The State Government seeks industry and community feedback on the proposed regulatory approach to RPT routes and charter policy outlined in this position paper.



Key aviation issues

Supply and demand in regional aviation in Western Australia is affected by the State economy and the State's regionally based major industries, especially the resources and energy sector. Without the demand generated by the resources sector many regional towns would not have a RPT service. Various other economic factors such as fuel costs and the exchange rate of the Australian dollar also come into play. In this context, achieving a balance between the needs of regional communities, the needs of local industries and the business decisions and capabilities of airlines is challenging. Other key aviation issues include high airfares compared with the rest of Australia, high demand for charter operations, airlines' on-time performance, security screening implications at regional airports and directional fluctuations in passenger demand.

Proposed regulatory approach beyond 2016

The proposed regulatory approach beyond February 2016 strikes a balance between regulation and deregulation of RPT routes. Deregulation of certain air routes in WA deemed capable of sustaining competition in the future will maximise the potential for industry and economic growth.

The State Government's starting position is not to regulate RPT air routes where feasible. Government intervention is only required when there is an unacceptable risk of market failure that would threaten the sustainability of RPT services on certain regional routes. Market failure occurs when an adequate level of air services on which local communities rely ceases to exist, in terms of frequency, reliability, quality or affordability, thereby having a detrimental impact on the life standards and wellbeing of regional populations.



Based on the information collected during the review, the recommended regulatory approach is provided for each air route as follows:

Perth-Learmonth (Exmouth) route

The Perth-Learmonth route has seen dramatic growth over recent years, with approximately 86,000 passengers flying in 2012-13. It was partially regulated¹ in 2011 by allowing two large airlines to operate on the route in competition. Competitive fares have been offered by both Virgin Australia Regional Airlines (VARA) and QantasLink, reflecting the mixed business (oil/gas) and leisure components of the route.

The Perth-Learmonth route has similarities to the Perth-Geraldton route, which was deregulated in 2011 and has been a success. Given the traffic volumes, strong business and tourism nature of the region there is no imperative for regulation of the Perth-Learmonth route in the future. As VARA intends to withdraw its RPT services, the route could be serviced by a sole operator until February 2016. Nevertheless, the passenger traffic on the route is relatively high and suggests that there is an opportunity for such demand to be potentially met again by two operators in the future. This will be more likely if two airlines each have a reasonable share of the corporate market (oil/gas mining clients) in the region. There is little risk in full route deregulation beyond 2016.

Recommendation:

Fully deregulate the Perth-Learmonth (Exmouth) air route beyond February 2016.

Perth-Albany route

With nearly 58,000 passengers per year, Perth-Albany is the second busiest regulated air route in WA. Regional air routes in other states of Australia sustain regular air services with much lower traffic volumes and without government regulation or subsidy.

Airfares on the Perth-Albany route are high and detract from local tourism and business opportunities. The lack of competition inhibits the potential for price discounting.

Passenger surveys show that the route is scarcely used by tourists. Wider awareness of the region's tourism activities in the future and competition are likely to increase air traffic, reduce airfares and boost local business and tourism opportunities.

In summary, it can be concluded that the risk of market failure on the Perth-Albany route if deregulated beyond 2016, is relatively low. Nevertheless, there is a significant likelihood that if the route were to be opened to competition that only one operator would operate the route. The community needs to be assured that should this occur into the future that the single operator does not operate in a monopolistic manner and take market advantage of the community. This is particularly the case in respect of pricing and scheduling. Further, the community wants to be assured that any airline which operates on the route responds to the specific regional economic and social context of the region.

Recommendation:

Reduce regulation on the Perth-Albany air route beyond February 2016 and open the route to potential competition. The State Government will ensure oversight of scheduling, pricing and community engagement for air services if appropriate.

¹ Partially regulated air route means a route on which certain aspects such as frequency of services and on time performance are regulated by the government and on which more than one airline can operate in competition and adjust airfares in response to fluctuations in passenger demand.



Perth-Esperance route

With approximately 45,000 passengers per year, Perth-Esperance is one of the busiest regulated air routes in WA. Regional air routes in other parts of Australia sustain regular air services with much lower traffic volumes and without government regulation or subsidy.

Similar to the Perth-Albany route, airfares on the Perth-Esperance route are high and detract from local tourism and business opportunities. The lack of competition inhibits the potential for price discounting. Passenger surveys show that the route is scarcely used by tourists. Wider awareness of the region's tourism activities in the future and competition are likely to increase air traffic, reduce airfares and boost local business and tourism opportunities.

In summary, it can be concluded that the risk of market failure on the Perth-Esperance route if deregulated beyond 2016, is relatively low. Nevertheless, there is a significant likelihood that if the route were to be opened to competition that only one operator would operate the route. The community needs to be assured that should this occur into the future that the single operator does not operate in a monopolistic manner and take market advantage of the community. This is particularly the case in respect of pricing and scheduling. Further, the community wants to be assured that any airline which operates on the route responds to the specific regional economic and social context of the region.

Recommendation:

Reduce regulation on the Perth-Esperance air route beyond February 2016 and open the route to potential competition. The State Government will ensure oversight of scheduling, pricing and community engagement for air services if appropriate.

Perth-Monkey Mia-Carnarvon route (Coral Coast route)

The number of passengers on the Coral Coast route has been relatively stable over recent years. However, at 25,000 passengers per annum, demand on the route is sufficient for one operator only. The route is unlikely to grow soon as no new major economic activities are anticipated in the region.

There has been limited commercial interest in the Coral Coast route from air operators due to the relatively low passenger numbers and the aircraft available within the fleets of the major airlines. Large aircraft (over 20,000kg) are unsuitable for operation on the route because at present there are no security screening facilities at the Carnarvon and Monkey Mia airports. Larger planes, such as Fokker 50 or jets, will only be able to land at Carnarvon and Monkey Mia after both airports are upgraded to provide for security screening. These works require substantial capital investment for which there is no current economic justification.

From a tourism perspective, continued air services to the iconic holiday destination of Monkey Mia are important to the State and there has been substantial business investment in the region. Monkey Mia flights serve only 4300 passengers per year. If there is no increased demand in the future, standalone Perth-Monkey Mia services are unlikely to be sustained in an unregulated environment and there is a significant risk of market failure. Thus, Monkey Mia air services would only be sustainable as part of the greater Perth-Carnarvon route, which then requires regulation.

Recommendation:

Regulate the Perth-Monkey Mia-Carnarvon air route beyond February 2016.

Northern Goldfields routes

In the Northern Goldfields region, the three RPT air routes have been assessed together as they have similar characteristics:

- Wiluna and Leinster;
- Leonora and Laverton; and
- Meekatharra and Mt Magnet.

Demand on all three routes is low and almost insufficient for one operator, let alone for more operators. Of all the airports, Mt Magnet and Wiluna have the lowest annual traffic of approximately 2000 passengers (except Leinster which is a closed town). Recent declines in demand have necessitated a reduction in the number of weekly services to the minimum level required under the deeds and, in some cases, the use of smaller aircraft. There is a significant risk of market failure if any of the Northern Goldfields routes are deregulated beyond 2016, given the low and declining passenger volumes.

The principal industry in the Northern Goldfields region is mining. The majority of passengers use the RPT services for business purposes, most of which are mining fly-in fly-out (FIFO) workers. The volume of charter traffic on all Northern Goldfields routes significantly exceeds the volume of RPT traffic. Further increases in charter operations may have an adverse impact on the RPT services, which poses a risk to the long-term viability of RPT services in the Northern Goldfields, unless carefully managed.

Leinster is a closed town that only exists for the mining operations of BHP Billiton. The population of Leinster comprises mining staff and their families, medical practitioners and teachers. Leinster residents are able to access frequent BHP Billiton charter flights. As a result, RPT flights to Leinster are not needed, as there is no need for air services for the general public. Therefore, RPT services to Leinster can be discontinued in the future. However, direct RPT services between Perth and Wiluna are unlikely to be sustainable on their own. Options regarding how best to regulate RPT services into Wiluna are currently being considered and trialled by the State Government.

Recommendation:

Regulate the Northern Goldfields air routes beyond February 2016, either by maintaining the existing route connections or establishing new route configurations, direct or triangulated, between Perth and the following airports: Laverton, Leonora, Meekatharra, Mt Magnet and Wiluna.

Recommendation:

Discontinue Leinster as an RPT airport beyond February 2016 or earlier.

Perth-Derby (Curtin) route

The Perth-Derby air route has a relatively high volume of approximately 42,000 passenger movements per year. The RPT services on the route are effectively underwritten by three mining companies in the Derby region. Overall, users are satisfied with the RPT services and have not indicated a preference for deregulation in the future. The Shire of Derby/West Kimberley has expressed a strong preference for continued regulation. Prior to November 2006, there were no direct services between Derby and Perth

and the current level of services to the town is therefore highly regarded. There has been limited commercial interest in this route from other air operators.

However, imposing long-term barriers to entry on the Perth-Derby route may inhibit prospective services by other airlines, particularly if significant changes in the region's economy occur, such as mining development. Therefore, the regulatory approach on the Perth-Derby route should be sufficiently flexible to enable entry by other airlines if circumstances change.

Recommendation:

Flexibly regulate the Perth-Derby (Curtin) air route beyond February 2016 by allowing the potential entry of other airlines should there be a significant change in the region's economic circumstances.

Charter policy

A key component of the review of regulated RPT air routes is the review of the State Government's charter policy. In other states and territories, demand for air services is primarily for tourism and leisure purposes. Western Australia is significantly different as demand for travel is mostly for business purposes, predominantly from the resources sector. Generally, a closed charter provides more flexibility and is more cost efficient to run than an RPT service. However, when charter operators transport their mining clients to regional RPT airports on a charter flight, this sometimes poses risks to the sustainability of RPT services, particularly on "thin" routes in the Northern Goldfields, those routes where passenger volumes on the RPT air service are low.

The State Government's long-standing policy objective has been to ensure that charter air services do not detract from the viability of RPT air services in WA as a matter of public interest, while also seeking to accommodate the needs of the mining companies. Thus, several amendments to the current charter policy are proposed to balance the viability of RPT air services, while minimising costs on the resources and charter industry. The proposed charter policy aims to adopt a more transparent and consistent approach in the assessment of charter applications in the future.

The intended outcomes of a revised charter policy are that:

- an adequate level of air services to regional communities is maintained;
- economic development is fostered for the WA resources sector;
- costs for the resources and charter industry are minimised; and
- State Government policy is consistent and transparent in the interest of fair charter assessment and management.

While charter operators can provide an unlimited number of charter services on any non-RPT routes, such as private mining site airstrips, without approval from the State Government, it is proposed that applications for charter operations on RPT routes are assessed based on the following guiding principles.

- On **unregulated RPT routes** charter operators can, at any time, operate one return charter in any type of aircraft, on behalf of one client per calendar week without approval from the State Government. However, approval from State Government is required for multiple charter services per week, and in such cases charter operators may be subject to a special charter condition if the unregulated RPT route has a low traffic volume (that is, fewer than 150,000 passenger movements per annum).
- On **regulated RPT routes**, charter operators can, at any time, operate one return charter in aircraft with 18 seats or fewer, on behalf of one client per calendar week without approval from the State Government. However, approval from State Government is required for a single charter service per week in aircraft with 19 seats or more or for multiple charter services per week in any type of aircraft. In such cases, charter operators may be subject to a special charter condition.

The proposed charter policy provides for a special charter condition on the aircraft licence to apply to charter services on unregulated or regulated RPT routes, where the risk of the RPT service becoming unviable is high. A special charter condition will require the charter operator (through their mining client) to purchase a certain number of seats on the RPT air service.

The *special charter condition* will be placed (unless exemptions apply) on the charter operator's aircraft licence where a charter flight operates on the same day as the RPT air service and there is a difference of less than four hours between the departure time of the RPT service and the departure time of the charter service.

Recommendation:

In the interest of maintaining public air services, continue to regulate charter operations over unregulated and regulated RPT air routes from 2014. This includes the placement of a *special charter condition* on aircraft licences requiring the purchase of a certain number of seats on the RPT service in the cases:

- when the RPT route is regulated or when the RPT route is unregulated but has a traffic volume of fewer than 150,000 passengers per annum.

AND

- where a charter flight operates on the same day as the RPT air service and there is a difference of less than four hours between the departure time of the RPT service and the departure time of the charter service.

Timeframes and submissions

The public and interested organisations are invited to comment on this position paper.

Submissions must be received by **5pm WST 31 October 2014** via:

email to airroutesreview@transport.wa.gov.au; or
post to

Review of Regular Public Transport Air Routes
Department of Transport
PO Box C102
PERTH WA 6839

Guidelines and format of such submissions are outlined at Attachment 1.

Following public consultation over the position paper, the State Government will announce the future regulatory approach for each air route.

CONTENTS

1. PURPOSE OF THIS DOCUMENT	13
2. STRATEGIC CONTEXT	14
2.1. Role of aviation in Western Australia	14
2.2. State Aviation Strategy	14
2.3. Key aviation issues in Western Australia	14
2.4. Governance of intrastate air routes	16
2.5. Current regulatory model of air routes	17
3. REVIEW OF REGULATED REGULAR PUBLIC TRANSPORT AIR ROUTES	19
3.1. Purpose of review	19
3.2. Objectives	19
3.3. Scope	20
3.4. Key principles	20
3.5. Outcomes	20
3.6. Timeframes	20
4. RISKS AND BENEFITS OF REGULATION AND DEREGULATION	21
4.1. Economic regulation principles	21
4.2. Economic deregulation principles	22
5. PROPOSED APPROACH TO REGULATION OF RPT ROUTES	24
6. ROUTE-BY-ROUTE ANALYSIS	25
6.1. From Perth to Learmonth/Exmouth (Gascoyne Region)	25
6.2. From Perth to Albany (Great Southern Region)	31
6.3. From Perth to Esperance (Goldfields-Esperance Region)	37
6.4. From Perth to Carnarvon and Monkey Mia (Gascoyne Region)	43
6.5. From Perth to the Northern Goldfields	50
6.6. From Perth to Derby/Curtin (Kimberley Region)	60
7. CHARTER POLICY	65
7.1. Definition of charter services	65
7.2. Demand for closed charters	66
7.3. Current charter policy objective	67
7.4. Charter policy application and charter licensing conditions	67
7.5. Charter regulatory considerations and challenges	68
7.6. Proposed amendments to charter policy	73
7.7. Key findings	76
7.8. Recommendation	76
ATTACHMENT 1 – Guidelines for submissions	77
ATTACHMENT 2 – Acronyms	78
ATTACHMENT 3 – Definitions and interpretations	79



FIGURES

Figure 1	Map – Regulated RPT air routes in Western Australia	18
Figure 2	Learmonth passenger movements	26
Figure 3	Purpose of air travel – Learmonth	28
Figure 4	Albany passenger movements	31
Figure 5	Purpose of air travel – Albany	34
Figure 6	Esperance passenger movements	37
Figure 7	Purpose of air travel – Esperance	40
Figure 8	Coral Coast passenger movements	44
Figure 9	Purpose of air travel – Carnarvon	47
Figure 10	Purpose of air travel – Monkey Mia	47
Figure 11	Northern Goldfields passenger movements	51
Figure 12	Purpose of air travel – Northern Goldfields	56
Figure 13	Derby passenger movements	61
Figure 14	Purpose of air travel – Derby	62
Figure 15	Number of RPT passengers versus charter seats per week in the Northern Goldfields (2012-13)	69

TABLES

Table 1	Cost per kilometre on major air routes in WA and other states	15
Table 2	Benefits and disadvantages of regulating air routes	21
Table 3	Benefits and disadvantages of minimised regulation	23
Table 4	Learmonth passenger movements	26
Table 5	Learmonth average airfare	27
Table 6	Breakdown of residents - Learmonth	27
Table 7	Purpose of air travel – Learmonth	27
Table 8	Purpose of air travel – Exmouth residents	28
Table 9	Service satisfaction ratings - Learmonth	29
Table 10	Albany passenger movements	31
Table 11	Albany average airfare	32
Table 12	Propensity to fly	33
Table 13	Breakdown of residents – Albany	33
Table 14	Purpose of air travel – Albany	34
Table 15	Service satisfaction ratings – Albany	35
Table 16	Esperance passenger movements	37
Table 17	Average airfare – Esperance	38
Table 18	Propensity to fly	39
Table 19	Breakdown of residents - Esperance	39
Table 20	Purpose of air travel – Esperance	40
Table 21	Service satisfaction ratings – Esperance	41
Table 22	Coral Coast passenger movements	44
Table 23	Carnarvon and Monkey Mia average airfare	45
Table 24	Breakdown of residents - Carnarvon	45
Table 25	Travel purpose – Carnarvon and Monkey Mia	46
Table 26	Travel purpose – Carnarvon residents	46
Table 27	Travel purpose – Monkey Mia residents	46
Table 28	Service satisfaction ratings – Carnarvon	48
Table 29	Service satisfaction ratings – Monkey Mia	48
Table 30	Northern Goldfields passenger movements	51
Table 31	Northern Goldfields passenger movements by airport	51
Table 32	Northern Goldfields average fare – by airport	54
Table 33	Breakdown of residents – Northern Goldfields	55
Table 34	Travel purpose – Northern Goldfields	55
Table 35	Service satisfaction ratings - Northern Goldfields	56
Table 36	Derby passenger movements	61
Table 37	Breakdown of residents - Derby	61
Table 38	Travel purpose – Derby	62
Table 39	Service satisfaction ratings – Derby	63

PART 1

PURPOSE OF THIS DOCUMENT

The State Government is reviewing the current regulatory framework for eight regulated Regular Public Transport (RPT) air routes in WA. The State Government must implement a new regulatory approach beyond 27 February 2016 when current deed arrangements between the State and incumbent RPT airlines expire.

The regulatory approach of RPT air routes outlined in this document is based on preliminary feedback received from community and stakeholder consultations as well as statistical data provided to the Department of Transport (DoT) by airlines operating in WA. This position paper has been released publicly as part of the review of regulated RPT air routes (the review) to seek further input from stakeholders and communities so that their views and needs are well understood before a final regulatory model for the future of intrastate RPT air services is established and implemented. In addition, this document also provides details of the proposed regulatory approach to charter air services, on which comments are highly encouraged.

This position paper presents a formal opportunity for RPT air providers, charter operators, airports, resource companies, Commonwealth, state and local government agencies, peak bodies, and local community groups and individuals to inform the State Government. Submissions are encouraged from all sectors of the community. Guidelines, deadlines, and format of such submissions are outlined at Attachment 1.



Busselton airport

PART 2

STRATEGIC CONTEXT

2.1. Role of aviation in Western Australia

The aviation industry in Western Australia is a significant driver of the economic and social development of the State. Aviation provides transport for both communities and businesses. Aviation plays a key role in connecting remote and rural areas in WA with Perth, as well as catering for local communities, the resource and corporate sectors, and the tourism and leisure markets.²

With a total area of over 2.5 million square kilometres and a population of approximately 2.5 million people³ Western Australia relies heavily on air services. The State's vastness, isolated country towns, limited nearby alternative air services and considerable volume of mining operations make WA unique. Whether for leisure, business or medical purposes, for many WA regional communities air travel is often the preferred alternative to driving vast distances, which may take several days. Furthermore, as a State of significant natural resources and mining activities WA depends on air services in order to meet the needs of the resource sector for its fly-in fly-out (FIFO) workforce. From a tourism perspective, interstate and international flights also foster tourism growth in WA by transporting visitors to various regional hubs in the State.

2.2. State Aviation Strategy

The State Government's proposed vision is to establish a world-class aviation network that promotes WA's economic and social development. This vision was proposed in the draft State Aviation Strategy⁴ which was released for public comment by the State Government on DoT's website at www.transport.wa.gov.au in September 2013.

The risk to the growth and prosperity of Western Australia is too great for the State Government not to be actively involved in the future of air services and aviation infrastructure. Therefore, the State Government has adopted an active strategic policy approach to aviation to support the economic and social growth of WA. Within this broader context the State Government aims to:

- ensure an adequate level of RPT air services on regional routes in WA;
- foster competition on RPT routes potentially leading to reduced airfares and more choice for consumers;
- ensure charter air services do not detract from the viability of RPT air services;
- impose minimum costs on the resources sector and charter operators in the State;
- reduce the costs of unnecessary subsidy and administrative 'red tape'; and
- minimise direct cost to the State.

2.3. Key aviation issues in Western Australia

The aviation sector is affected by various economic factors and as such can be subject to rapid change. For example, fuel costs and movements in the values of the Australian dollar put additional cost pressures on airlines in their endeavours to meet demand for air services efficiently. Achieving a balance between the needs of regional communities, the needs of local industries and the business decisions and capabilities of airlines is a significant challenge.

² Department of Transport, 2013. *Draft State Aviation Strategy*.

³ Australian Bureau of Statistics [ABS], 2011. Census quick stats.

Retrieved from <http://www.abs.gov.au/websitedbs/censushome.nsf/home/quickstats?opendocument&navpos=220>.

⁴ Department of Transport, 2013. *Draft State Aviation Strategy*.

Therefore, before making any decisions about the future of air services in the State, it is crucial to recognise and acknowledge the following key aviation issues:

- **High intrastate airfares** – regional airfares in WA are amongst the highest in Australia and are a serious concern for regional towns as they disadvantage local communities and businesses and inhibit tourism growth. The high airfares are (partly) caused by high fixed costs and labour costs, including airport fees, taxes and security charges. In addition, seasonality greatly impacts aviation demand, affecting airfares.

Table 1 shows the cost per kilometre on major air routes in WA and Queensland (the latter is a resources industry-intensive state with long-distance intrastate air routes like WA). This cost is calculated by dividing the average airfare by the distance between two destinations. The table shows the high per kilometre cost of airline travel in WA compared to other states. In general, airline costs decline as route distances increase.

Table 1: Cost per kilometre on major air routes in WA and other states

ROUTE	AIR DISTANCE (KM)	AVERAGE AIRFARE (ONE WAY)*	COST PER KM
Western Australian Routes			
Perth - Broome	1,692	\$315	\$0.19
Perth - Exmouth	1,098	\$214	\$0.20
Perth - Karratha	1,252	\$314	\$0.25
Perth - Newman	1,030	\$313	\$0.30
Perth - Esperance	720	\$284	\$0.39
Perth - Carnarvon	816	\$333	\$0.41
Perth - Leonora	616	\$250	\$0.41
Perth - Kalgoorlie	550	\$238	\$0.43
Perth - Wiluna	729	\$345	\$0.47
Perth - Laverton	723	\$366	\$0.51
Perth - Meekatharra	643	\$363	\$0.56
Perth - Albany	390	\$233	\$0.60
Perth - Mt Magnet	462	\$305	\$0.66
Queensland Routes			
Brisbane - Cairns	1,430	\$168	\$0.12
Brisbane - Mt Isa	1,565	\$320	\$0.20
Brisbane - Gladstone	440	\$101	\$0.23
New South Wales Routes			
Sydney - Mildura	837	\$150	\$0.18
Sydney - Albury	451	\$120	\$0.27
South Australian Routes			
Adelaide - Alice Springs	1,317	\$180	\$0.14
Adelaide - Olympic Dam	521	\$144	\$0.28

*Average airfares for regulated airports in WA are based on 2012-13 data provided by the airlines to DoT. Average airfares for unregulated airports in WA and airports in other States are based on random internet checks throughout 2013.

- **Higher level of corporate travel** – business travellers constitute a large portion of all passengers using RPT air services in WA. Corporate travel is relatively price-inelastic and in most cases the high airfares are not incurred by individuals travelling for business purposes but rather by their employer.
- **Greater demand for charter operations** – compared to other states in Australia where tourism and leisure travel predominates, there is a greater demand for charter services in WA to enable FIFO operations for the resources sector. The high number of charter operations poses a risk to the viability of RPT air services particularly in the Northern Goldfields region where the volume of charter traffic over RPT air routes is significantly higher than the traffic volume on the RPT services.
- **Directional fluctuations in passenger demand** – passenger demand can be highly directional on some intrastate RPT air routes in WA, that is, most traffic is one-way only. This necessitates the provision of a larger aircraft to accommodate greater demand in one direction (the plane is full or near full), but not on the return leg (the plane can have numerous vacant seats). Overall, airlines' desired load factor (that is, the percentage of actual number of passengers relative to aircraft seat capacity) is at least 75 per cent. This can be difficult to achieve when passenger demand is higher only in one direction.
- **On-time performance** – there are some concerns about the reliability of flights on certain RPT air routes in WA as measured by an airline's On-Time Performance (OTP). The minimum standard for OTP stipulated in existing deeds between airlines and State Government is 80 per cent or above and is measured by the number of delays greater than 15 minutes of scheduled flight times. Although flight delays can be outside of an airline's control (for example, bad weather or air traffic control), they increase passenger dissatisfaction, affect productivity and are also undesired by airlines due to increased costs associated with holding an aircraft on the ground or in the air for a prolonged period.

Air services are sometimes affected by increased traffic and congestion at Perth airport in peak periods of the week, such as between Tuesday and Thursday, due to typical mining company rosters.

- **Capacity of regional RPT airports** – in some cases regional airports in WA, most of which are owned and operated by local governments, do not have the financial capacity to expand and accommodate larger aircraft such as jets (for example, Fokker 100 or Boeing 717/Boeing 737). Larger aircraft above 20,000 kg require security screening of RPT passengers and baggage under Commonwealth legislation administered by the Office of Transport Security (OTS). A significant financial investment would be needed to upgrade the facilities of regional airports such as Carnarvon, Monkey Mia and airports in the Northern Goldfields to meet security screening requirements to allow landing of jets in the future. RPT services on these routes are currently provided by aircraft less than 20,000 kg so security screening does not apply.

2.4. Governance of intrastate air routes

Under the *Western Australian Transport Coordination Act 1966* and the *Transport Coordination Regulations 1985* the Minister for Transport has the authority to issue aircraft licences for up to 12 months, free of charge, to airlines operating within the State for commercial purposes (hire or reward), other than for medical emergency purposes.

The purpose of the Act and Regulations is to ensure that Western Australians are provided, as far as is practicable, with reliable, efficient and economic transport services. Under this legislation the Minister is empowered to regulate intrastate air routes by placing various conditions on aircraft licences. These can include conditions that restrict the area or frequency of airline operations or any other conditions considered in the public interest.

Any condition placed on an aircraft licence may refer to the provision of RPT services, charter services, or both where applicable.

It should be noted that the Commonwealth Civil Aviation Safety Authority's (CASA) legislation defines an RPT service as "operations involving transporting persons generally, or transporting cargo for persons generally, for hire or reward, in accordance with fixed schedules to and from fixed terminals over specific routes with or without intermediate stopping places between terminals".⁵ In other words, an RPT service is determined by CASA as a scheduled service, available to the general public and operated by an airline with a CASA-issued Air Operators Certificate (AOC), endorsed for RPT operations.

In addition to RPT services, CASA also distinguishes between 'open' and 'closed' charters. An open charter operation refers to a service offered to the public who pay a fee, while closed charter operations are generally non-public, non-fee paying. CASA defines closed charter air services as those whereby "the accommodation in the aircraft is not available for use by persons generally, and the operations are conducted in accordance with fixed schedules to and from fixed terminals".⁶ From the Office of Transport Security perspective, open charters and RPT flights with aircraft above 20,000 kg are subject to relevant security screening.

The Western Australia State legislation (*Transport Coordination Act 1966* and the *Transport Co-ordination Regulations 1985*) also distinguishes between RPT and charter services. The definition of a charter service is slightly broader than CASA's. RPT services are defined by State legislation as those that "operate according to a published schedule" and a charter service is defined as an "air service that is not an RPT service".

In addition to licensing individual aircraft, the State Government may also provide airlines with a licence to operate on a specified route by way of a legal deed. Such regulation of intrastate air routes for a longer term aims to provide greater certainty for air services to communities, businesses and the aviation industry. The Department of Transport (DoT) is the responsible agency for administering aircraft licences in WA and managing the deeds for regulated intrastate air routes.

2.5. Current regulatory model of air routes

Following a competitive tender process in 2010, three airlines – Virgin Australia Regional Airlines (VARA, formerly known as Skywest Airlines), Skippers Aviation and QantasLink – were awarded rights in 2011 to provide RPT services on the protected air routes in WA under deeds of agreement with the State Government. The only exception to these deeds of agreement was the Perth-Derby route, which was protected by the State Government under an aircraft licensing arrangement.

The deeds are in place to 27 February 2016 unless surrendered earlier by the operator or terminated in the case of a breach. Each deed has an option for an extension of up to five years beyond the expiry date. With the exception of the Perth-Learmonth (Exmouth) route which was partially deregulated in 2011 and has since been serviced by two airlines operating in competition, all other regulated routes in WA are serviced by a single airline providing RPT services to a specified regional airport. Under the deeds, RPT airlines:

- are required to provide, at a minimum, the stipulated number of air services per week to the nominated regional airports;
- may not charge more than the maximum deed airfare established for each route;
- are required to seek approval from DoT for variations to timetables;
- are required to participate in biannual Community Consultation Group meetings with DoT and regional stakeholders; and
- are required to provide monthly statistics on passenger movements, load factors, average airfares and on-time performance.

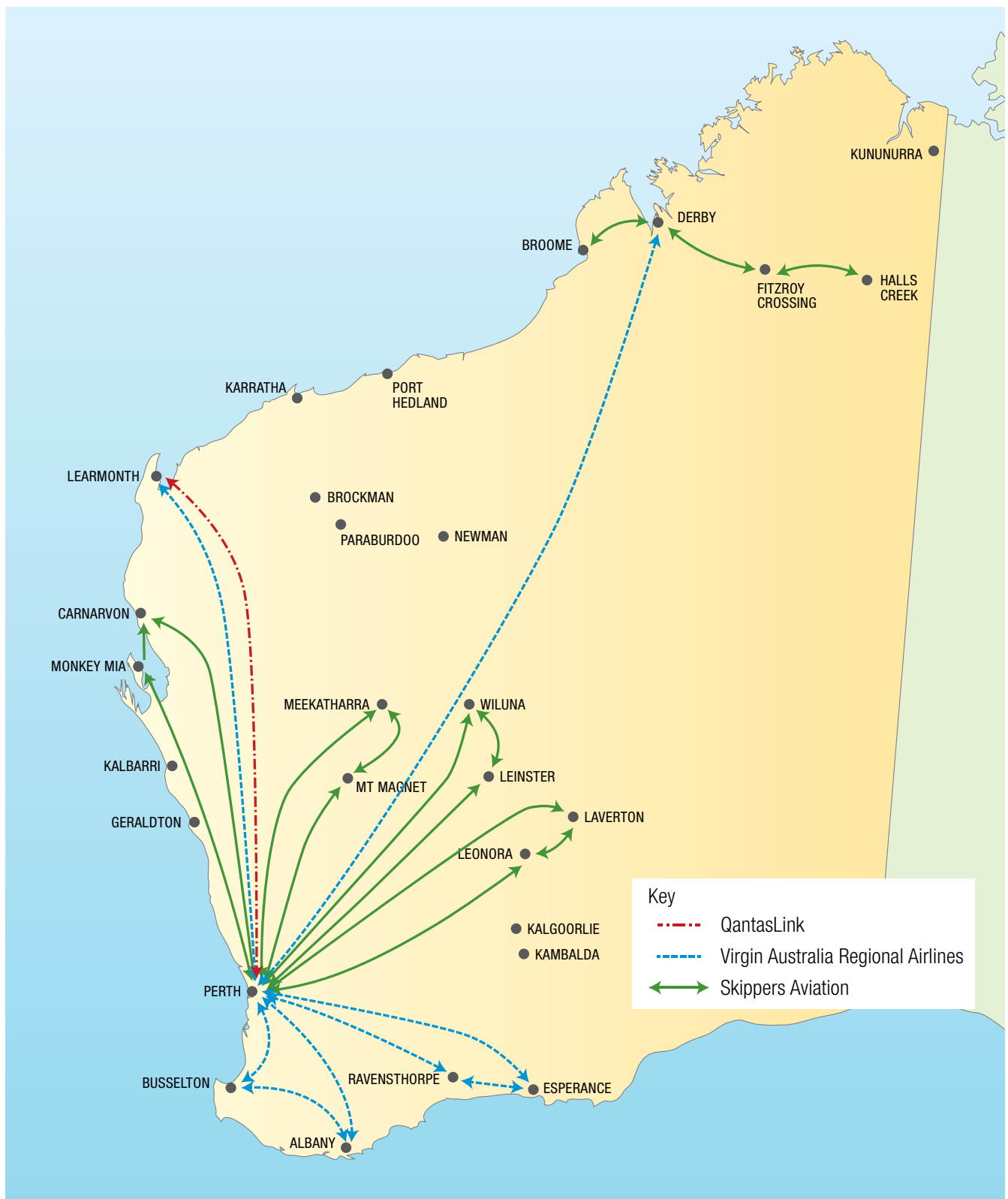
It is important to note that one of the deeds is for the provision of RPT air services on the Kimberley route (Broome-Derby-Fitzroy Crossing-Halls Creek) – the only state-subsidised air route in WA. The Kimberley route is not within the scope of this position paper as it is subject to a separate review.

⁵ Civil Aviation Safety Authority. [CASA], 2009. *Regulatory Policy – CEO-PN007-2009 Classification and Regulation of 'Closed-Charter' Operations under CAR 206(1)(b)(ii) CEO-PN007-2009*. Retrieved February 1, 2014 from <http://www.casa.gov.au/corporat/policy/notices/CEO-PN007-2009.pdf>

⁶ Civil Aviation Safety Authority. [CASA], 2009. *Regulatory Policy – CEO-PN007-2009 Classification and Regulation of 'Closed-Charter' Operations under CAR 206(1)(b)(ii) CEO-PN007-2009*. Retrieved February 1, 2014 from <http://www.casa.gov.au/corporat/policy/notices/CEO-PN007-2009.pdf>

Figure 1 shows all currently regulated RPT air routes in WA. The current regulatory approach has been successful in that with the exception of the Kimberley route all other RPT routes have sustained regular air services without government subsidy or impost on taxpayers.

Figure 1: Map – Regulated RPT air routes in Western Australia



* It should be noted that the Kimberley route (Broome-Derby-Fitzroy Crossing-Halls Creek) which is the only state-subsidised air service in WA, is not in the scope of this report.

Busselton and Ravensthorpe are unregulated ports; however as proposed by the RPT airline they were included in the deed and are seen to provide an additional value to the local communities.

^ Kalbarri no longer receives RPT services as it was permanently removed from the deed on 1 January 2013 due to low passenger demand and high costs associated with the airport maintenance.

PART 3

REVIEW OF REGULATED REGULAR PUBLIC TRANSPORT AIR ROUTES

3.1. Purpose of review

The purpose of the review of regulated RPT air routes in Western Australia (the review) is to recommend the regulatory approach of all currently protected RPT air services in WA beyond 27 February 2016, when existing deeds with the three incumbent RPT airlines expire. The review aims to provide sufficient notice to the aviation industry and resource sector so that airlines and mining companies can adjust their operations before the regulatory framework is altered.

While well-established airlines are quickly able to undertake operations on new intrastate air routes, smaller airlines or potential newcomers would need more time to secure capital and set up business operations. In addition, the State Government must allow sufficient time, if required, to undertake a competitive tender process including a series of activities ranging from advertising to acceptance of submitted tenders, evaluation, negotiations and final appointment of successful bidders.

The review covers the current State Government policy for charter air operations which both affects and is affected by the charter industry. The charter policy, which is discussed in part 7, aims to ensure that charter air services do not detract from RPT services while minimising costs on the mining industry.

3.2. Objectives

In line with the draft State Aviation Strategy the objectives of the review are to:

- 1) assess the current regulation of WA RPT intrastate air routes; and
- 2) recommend the best future approach for each regulated air route.



3.3. Scope

The review includes the following activities:

- 1) review of each regulated RPT route individually and collectively as part of the WA aviation network of RPT services;
- 2) assessment of current passenger numbers, aircraft type used, load factors and compare average fares on each of the regulated RPT air routes with those on unregulated routes;
- 3) assessment of the impact of charter air services in the context of the viability of RPT services and review the current State Government policy for charter operations within WA;
- 4) consultation with regional communities and business and tourism stakeholders to ensure their views and long-term needs are well understood and taken into account in determining the future of each RPT route; and
- 5) consideration of risk, management, planning and communication to ensure the viability of RPT services is not undermined and the potential growth of RPT services (in terms of frequency and quality of services) in the future is not restricted.

3.4. Key principles

The key principles of regulation are as follows:

- 1) Long-term policy clarity and certainty fosters investment by airlines.
- 2) Business and community needs are taken into account in any market intervention by government.
- 3) Less government intervention in the market encourages innovation and competition on air routes to enable reduced airfares and provide greater choice for consumers; and
- 4) All communities of more than 500 people should ideally have access to an RPT air service operating a minimum of three services a week within 250km by a sealed road.

3.5. Outcomes

The review will recommend the regulatory approach for each of the regulated RPT air routes in WA to the State Government for consideration. For each RPT air route there are two options beyond February 2016, that is the State Government will either:

- deregulate; or
- continue to regulate by undertaking an open competitive tender process in 2015-16 or extending the current deed arrangements for up to five years.

3.6. Timeframes

This position paper is part of the review which commenced in June 2013. Following responses to the position paper, DoT will undertake a consultation process, prior to finalising the recommendations to State Government. The final decision regarding the future of each currently regulated RPT air route will be announced by State Government in 2014. The review has been conducted at this time to enable provision of sufficient notice to airlines and the resource industry currently using the RPT services so that they can adjust their operations before the future regulatory model is adopted.

MILESTONES	TARGET DATE
Position paper released for public comment	31 July 2014
Responses to position paper closing date	31 October 2014

PART 4

RISKS AND BENEFITS OF REGULATION AND DEREGULATION

The State Government’s policy goals for intrastate aviation regulation aim to:

- 1) ensure a sufficient frequency of RPT air services on regional routes in WA;
- 2) foster competition on RPT routes, potentially leading to reduced airfares and more choice for consumers;
- 3) ensure charter air services do not detract from the viability of RPT air services;
- 4) impose minimum costs on the resources sector and charter operators in the State;
- 5) reduce the costs of unnecessary subsidy and administrative red tape; and
- 6) minimise direct cost to the State.

4.1. Economic regulation principles

The State Government seeks to foster a business environment for intrastate air services that allows competitive market forces to respond to consumer demand but with minimal

intervention from government. This is also in line with the Council of Australian Government’s (COAG) Competition Principles Agreement for promoting legislation which “should not restrict competition unless it can be demonstrated that the benefits of the restriction to the community as a whole outweigh the costs and the objectives of the legislation can only be achieved by restricting competition”.⁷

However, in some cases restriction of operators (regulation) is necessary to protect the public and “achieve important economic, social and environmental objectives”.⁸ Routes with low passenger volumes need to be protected to ensure the viability of RPT services to smaller regional communities. Where demand is insufficient for more than one airline, “introducing competition may result in lower fares in the short term, but there is the risk that it will lead to the withdrawal of both the incumbent and new entrant, leaving the affected community without any air service, at least for a time”.⁹ Table 2 outlines the key benefits and disadvantages of regulating air routes.

Table 2: Benefits and disadvantages of regulating air routes

REGULATION	
BENEFITS	RISKS / DISADVANTAGES
<ul style="list-style-type: none"> → Ensures publicly accessible services to regional communities → Provides greater certainty to communities and industries → Provides opportunity to discuss schedule changes prior to changes occurring in the community 	<ul style="list-style-type: none"> → Reliance on one airline per route – there is no guarantee that the airline will remain financially sound in the future → No pressure of competition → Increased average air fares → Restrictions on innovation and creativity → Limited incentives to grow market → Distortion created in the market → Cross subsidy may mean passengers are paying more on some routes → Substantial administrative responsibilities for government

⁷ COAG, 2007. Competition Principles Agreement. Retrieved February 1, 2014 from <http://www.coag.gov.au/node/52>

⁸ Department of the Prime Minister and Cabinet [DPMC], 2013. Best practice regulation handbook. Retrieved March 18, 2014 from <http://ris.dPMC.gov.au/2013/07/25/new-best-practice-regulation-handbook/>

⁹ Department of Infrastructure, Transport, Regional Development and Local Government, 2008. *National Aviation Policy White Paper*. Retrieved from http://www.infrastructure.gov.au/aviation/publications/pdf/Aviation_White_Paper_final.pdf

Some stakeholders suggest that once a regulated air route reaches a certain threshold number of passengers, it can automatically be assumed that the route will sustain open competition and therefore should be deregulated. For example, in New South Wales regulated public routes are considered for deregulation when the annual passenger demand exceeds 50,000.

However, route regulation in Western Australia is not determined purely based on the annual passenger volume, although the level of demand is taken into account to provide relevant context in each route assessment. Other route characteristics, regional context and economic factors are also considered when making decisions as to whether a route should be open to competition. These criteria include, but are not limited to, the extent to which air services are vital to communities, the proximity of other RPT airports, the key economic and social drivers in the region and the degree of risk in deregulating a market compared to the potential benefits of open competition. COAG's Regulatory Reform Plan suggests that a good regulatory process is based on several principles, including regular reviews to evaluate the regulation's relevance and effectiveness and regular consultation with stakeholders.¹⁰

It has been also highlighted by some airlines that marginal routes are often cross-subsidised by other, more profitable routes. Despite low profits on certain regional routes there are still benefits in the provision of RPT services on less profitable routes as they provide greater connectivity to interstate and international markets through airlines' established networks in Australia and overseas. While airlines benefit from strengthening their brand name and reputation, passengers enjoy more travel choice through a more extensive air transport network.

Historically, most RPT air routes in WA, even those that are marginal, have operated successfully without any government subsidies. In the current economic and financial conditions, subsidies for intrastate aviation will not be considered by the State Government unless absolutely necessary.

For example, in South Australia some RPT air routes with passenger movements as low as 11,000 per year are not regulated and are provided to regional communities without government subsidy.

4.2. Economic deregulation principles

In the past few decades, Australia has seen a significant reduction in economic regulation, although some remains when it is seen to be in the public interest to achieve wider social objectives. In addition, the National Aviation Policy White Paper indicates that:

*“Successive Australian governments have taken the view that there is a role for government in providing support for regional routes that are not commercially viable, but are essential for the social and economic wellbeing of the communities they serve”.*¹¹

Light-handed regulation is preferred by the State Government because it can achieve government policy goals for air services and because it encourages business investment, stimulates economic and tourism growth and fosters new, innovative paths for WA regional towns.

An RPT air route without regulation is no guarantee of acceptable market outcomes, but it enables market forces to drive demand and supply and reduce or eliminate the need for government to intervene in commercial situations. In essence, the absence of government regulation provides air operators an opportunity to meet demand more effectively without interference.

The recent deregulation of the RPT route between Perth and Geraldton in 2011, for example, has proved successful. The route saw open competition by Australia's two major airlines (Qantas and Virgin Australia), increased passenger volumes and reduced airfares – a desired outcome for WA given the concern regarding airfares being higher in WA than other Australian states.

¹⁰ COAG, 2007. Regulatory Reform Plan. Retrieved March 18, 2013 from http://archive.coag.gov.au/coag_meeting_outcomes/2007-04-13/docs/coag_nra_regulatory_reform.pdf

¹¹ Department of Infrastructure, Transport, Regional Development and Local Government, 2008. National Aviation Policy White Paper. Retrieved from http://www.infrastructure.gov.au/aviation/publications/pdf/Aviation_White_Paper_final.pdf

The Perth-Learmonth (Exmouth) RPT route, which has been serviced by two airlines operating in competition since 2011, has shown similar results with numerous weekly air services, competitive prices and strong passenger growth.

Table 3 summarises the key benefits and risks of a minimised regulatory environment for air services. In such an environment, consideration is given to risk minimisation and risk management strategies. For example, the Department of Transport (DoT) monitors key RPT routes by reviewing operating statistics collected by the Commonwealth Bureau of Infrastructure, Transport and Regional Economics (BITRE). Regular consultation with the RPT airline and relevant stakeholders is also undertaken to address issues and identify future

route opportunities. Any significant decline in service levels is assessed and action can be taken if required.

Should RPT air services on an RPT route prove unviable or there is evidence that competition on the route is leading to market failure, the State Government may re-regulate (and in emergency cases it can do this at short notice) to ensure continued services to regional towns. In other words, the potential deregulation of a currently regulated route will require continued monitoring in order to provide an early warning of possible market failure and identify if government intervention is needed to protect services to particular communities while also meeting competition policy requirements.

Table 3: Benefits and disadvantages of minimised regulation

MINIMISED REGULATION	
BENEFITS	RISKS / DISADVANTAGES
<ul style="list-style-type: none"> → Allows competition to dictate market outcomes, that is market forces determine the level of services available to the public → Promotes lower airfares through competition → Promotes greater choice of service providers for consumers → Provides greater flexibility for airlines to respond to customer needs quickly without having to seek approval from a government regulator → Provides a better reflection of what customers want by allowing customer market expectations to drive the industry and not the other way around → Provides for a greater diversity of services → Promotes efficiency by reducing red tape and unnecessary administrative costs → Encourages charter operators to provide RPT services → Enables State's consistency with COAG's Competition Principles Agreement 	<ul style="list-style-type: none"> → Can lead to greater uncertainty for airlines as new operators may come and go → The market may provide a lower level of service than that previously provided by airlines → Smaller aircraft may be used to supply the services resulting in fewer discounted seats → An adequate level of services expected by passengers may not be provided (such as in capacity for baggage or on-board facilities) → RPT low-volume routes could fail if charter operators secure contracts with mining clients, so that passengers from the resources industry use charter and not RPT services

PART 5

PROPOSED APPROACH TO REGULATION OF REGULAR PUBLIC TRANSPORT AIR ROUTES

The State Government's preference is that government intervention is only required when there is an unacceptable risk of market failure. Market failure occurs when an adequate level of air services in terms of frequency, reliability, quality and affordability upon which local communities rely, ceases to exist, thereby having a detrimental impact on the life standards and wellbeing of regional communities.

Reduced regulation of RPT air routes deemed capable of sustaining competition in the future could increase the potential for industry and economic growth. Other routes, which have insufficient passenger traffic to sustain competition, need to be protected to ensure that regional and remote communities have reasonable access (determined by the size of communities, other modes of available transport and travelling distance on a safe road) to air services.

The current regulatory framework of RPT air routes in WA is in place until February 2016. Beyond this date the State Government proposes a less regulatory approach in order to provide the potential for competition, more choice, and

reduced airfares, while ensuring communities have access to a sufficiently frequent level of quality of RPT air services.

While it is acknowledged that deregulation of all currently regulated RPT air routes in WA could adversely impact on remote communities by inhibiting access to essential services and minimising the potential for regional economic growth, reduced regulation could work well in some market sectors. Such a regulatory approach will allow for a more flexible system that will be more responsive to market demand. In a competitive environment, market forces drive the level of services, encourage innovation, foster lower airfares, and provide for improved outcomes for Western Australians.

"In a contestable market competition offers the best outcome for consumers".¹²

The regulatory recommendations in the following section proposes a balance between regulation and promoting competition on RPT routes into the future.

¹² Department of Infrastructure, Transport, Regional Development and Local Government, 2008. *National Aviation Policy White Paper*. Retrieved from http://www.infrastructure.gov.au/aviation/publications/pdf/Aviation_White_Paper_final.pdf



PART 6

ROUTE-BY-ROUTE ANALYSIS

This section assesses each individual air route currently regulated in WA and recommends a regulatory approach beyond 2016 based on the following:

- 1) the characteristics of each route in the context of the corresponding geographic region;
- 2) extensive consultation with and feedback from key stakeholders and regional communities received at the biannual Aviation Community Consultation Group meetings chaired by DoT, as well through ad-hoc meetings, phone and electronic communication. Stakeholders include RPT airlines, charter operators, local governments, mining companies, Chamber of Minerals and Energy, regional development commissions, airports, and various government agencies;
- 3) statistical data provided by RPT airlines to DoT, such as passenger volumes and average airfares relevant to the air services on each route; and
- 4) data from passenger on-board flight surveys conducted by DoT in collaboration with RPT airlines. Surveys were undertaken over two weeks (one week during school holidays and one week during non-school holiday periods throughout July and August 2013).

6.1. From Perth to Learmonth/ Exmouth (Gascoyne Region)

Regional location

The remote town of Exmouth is located nearly 1300 km in the north-west of Perth and has a population of only 2200 people.¹³ It takes approximately 14 hours to drive between Exmouth and Perth, and many travellers substitute a short two hour flight.

Exmouth's RPT airport is located at the nearby Learmonth Royal Australian Air Force (RAAF) base. The airport is jointly used as a RAAF and civil airport and can accommodate a variety of aircraft. The route is therefore referred to as Perth-Learmonth.

Demand profile

The oil and gas mining offshore from Exmouth is a significant contributor to the local and wider State economy. The area is also a popular tourism destination with key attractions including the World Heritage- listed Ningaloo Reef, whale shark swimming and national parks providing scenic drives and bush walks among colourful canyons. Other local industries include pastoral and fishing activities.

¹³ Australian Bureau of Statistics [ABS], 2011. *Census quick stats*. Retrieved from <http://www.abs.gov.au/websitedbs/censushome.nsf/home/quickstats?opendocument&navpos=220>



Learmonth airport

Data in table 4 and figure 2 show growth on the Perth-Learmonth route over the past seven years. Since 2006-07, financial year passenger movements on the route have increased by nearly 140 per cent, reaching over 86,000 in 2012-13 and making it the highest volume route of all protected routes in the State. This growth is largely due to increased business travel from a consortium of oil and gas companies in the region and the provision of competitive fares to tourism/leisure passengers.

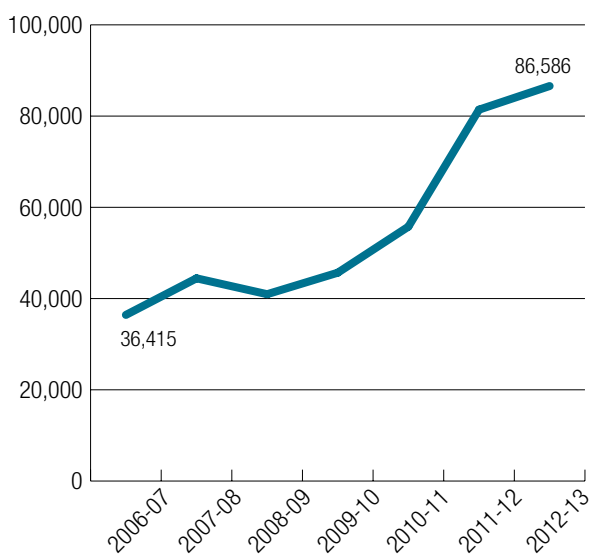
Table 4: Learmonth passenger movements

FINANCIAL YEAR	LEARMONTH PASSENGER MOVEMENTS*
2006-07	36,415
2007-08	44,438
2008-09	40,957
2009-10	45,667
2010-11	55,759
2011-12	81,409
2012-13	86,586

* Based on data from BITRE and DoT

Demand for air services from tourists and leisure travellers on the Perth-Learmonth route, is strongly seasonal. Demand from the leisure market is significantly lower in summer due to the hot weather consistently reaching 40 degrees Celsius.

Figure 2: Learmonth passenger movements



Frequency of services and operator

The Perth-Learmonth air route was partially deregulated by the State Government in 2011 by allowing two airlines to operate on the route. At the time of route award, the smaller RPT service provider – Skywest Airlines – operated in direct competition with QantasLink, a subsidiary of the Qantas Group. Since early 2013, however, following the acquisition of Skywest Airlines by Virgin Australia, the route has seen two large carriers operating alongside each other. The route is currently serviced by QantasLink and Virgin Australia Regional Airlines (VARA).

Between the two RPT airlines, the Perth-Learmonth route received a total of 15 direct RPT flights per week in each direction for over two years, providing the local community with an access to an RPT air service every day of the week. Of the total number of flights, 12 services are currently provided by QantasLink which accommodate demand from both the business market (as the airline has contracts with the major mining clients Apache, Shell, BHP and Woodside) and the tourism market. The remaining three RPT services per week have been provided by VARA accommodating demand mostly from the leisure market.

In mid-2014 VARA advised the State Government of its intention to withdraw from its RPT services on the Perth-Learmonth route because from the airline's viewpoint, the route is no longer commercially viable. This means that for the remaining period to February 2016 the Perth-Learmonth route is likely to be serviced by a sole operator (QantasLink). At the time of writing this document it is unknown whether QantasLink will be able to increase its services from 12 to 15 or consolidate certain flights in response to the loss of VARA's three weekly flights.

The primary aircraft used on the route are Bombardier Dash 8-Q400, Boeing 717 and Fokker 100 with a capacity of 74, 115 and 100 seats respectively. Compared to planes used on other regulated routes, these jet aircraft have a high seat capacity to meet the increased passenger demand. There is the possibility of even larger jets operating on this route in the future due to a further expansion of oil and gas exploration and development activities. The Perth-Learmonth route has the highest load factor of all regulated routes in WA and is well above airlines' generally desired rate of at least 75 per cent.

Airfares

The average airfares on the Perth-Learmonth route over the last two years (table 5) have seen a substantial reduction by approximately 10 to 30 per cent. This has been welcomed by local residents, business and leisure travellers. The main reason for the cheaper fares is the head-to-head price competition between the two airlines. In 2012-13 the average one-way fare was \$214 including all taxes and charges. Taxes and charges comprise approximately \$50 per passenger each way of the total fully flexible airfare (Y fare). Airfares are generally lower in the hot months of the year. Off-peak periods have seen big discounts, with one-way airfares on the route falling to as low as \$99 including all taxes and charges over a limited time.

Table 5: Learmonth average airfare

FINANCIAL YEAR	AVERAGE AIRFARE FOR LEARMONTH QANTASLINK* (ONE WAY)	AVERAGE AIRFARE FOR LEARMONTH VARA* (ONE WAY)
2011-12	\$255	\$282
2012-13	\$229	\$199

*Average airfares are based on data provided by airlines to DoT.

Users of RPT service

Data was obtained through on-board passenger surveys with a sample size of approximately 600, conducted on the route over two weeks in July-August 2013. The results indicate that nearly 48 per cent of surveyed travellers are Perth residents, 15 per cent are Exmouth residents and 37 per cent are from somewhere else. It is interesting to note that the majority (73 per cent) of the non-Perth residents come from other states in Australia, a small number (4 per cent) visit from overseas and the remainder (23 per cent) reside in other regions throughout Western Australia (table 6).

Table 6: Breakdown of residents – Learmonth

ALL LEARMONTH TRAVEL		NON PERTH RESIDENTS	
Perth residents	47.6%	Interstate Australia	73%
Exmouth residents	15.1%	International	4%
Non-Perth residents	37.3%	Country WA	23%

Source: passenger surveys conducted over two weeks in July-August 2013.

Purpose of travel is broken down for each category in table 7. Approximately 43 per cent of all surveyed passengers using the RPT services of both airlines travel for business purposes, comprising mostly FIFO workers from the resources sector. Approximately 45 per cent of surveyed passengers travel for holiday and leisure purposes. The remainder of surveyed passengers fly for medical reasons or are visiting family and friends.

The surveys were conducted during the peak tourism season. As such, the proportion of leisure travellers on the Perth-Learmonth route is likely to be higher than at other times during the year. Over one third of surveyed Exmouth residents (37.5 per cent) use the RPT air services to Perth for medical reasons (table 8). This indicates that flights are a necessity for the regional community and an important service for people's welfare.

Table 7: Purpose of air travel – Learmonth

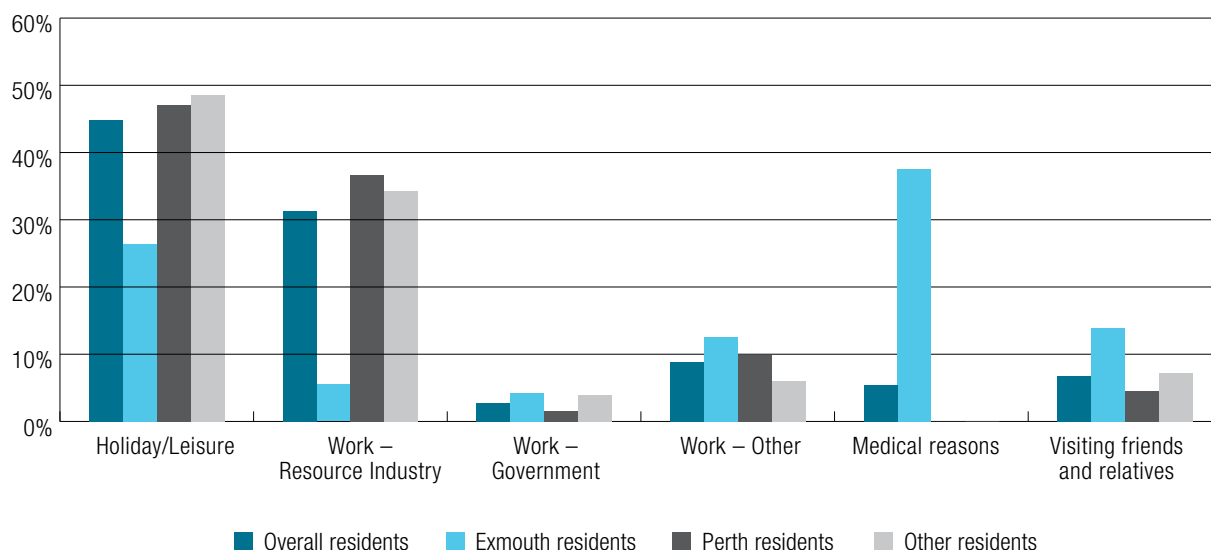
PURPOSE OF AIR TRAVEL – LEARMONTH	OVERALL RESPONSE RATE %
Work – Resource industry	31.3
Work – Government	2.8
Work – Other	8.8
Total work	42.9
Holiday / leisure	44.8
Medical reasons	5.4
Visiting friends and relatives	6.8
Total	100%

Table 8: Purpose of air travel – Exmouth residents

PURPOSE OF AIR TRAVEL	EXMOUTH RESIDENTS %	PERTH RESIDENTS %	OTHER RESIDENTS %
Work – Resource industry	5.5	36.7	34.3
Work – Government	4.2	1.6	3.9
Work – Other	12.5	9.9	6
Total work	22.2	48.2	44.1
Holiday / leisure	26.4	47.1	48.6
Medical reasons	37.5	0	0
Visiting friends and relatives	13.9	4.5	7.2
Total	100%	100%	100%

Source: passenger surveys conducted by both airlines over two weeks in July-August 2013.

Figure 3: Purpose of air travel – Learmonth



Passengers’ overall views regarding airfares, convenience of flight schedule and quality of air services on the Perth-Learmonth route are summarised in table 9. Half of all surveyed travellers on the route, which include services provided by both airlines, rated the airfares good to excellent, with 35 per cent of respondents indicating that prices were acceptable.

The vast majority of survey respondents indicated their strong satisfaction with the quality of services on the route (89 per cent rating from good to excellent). One reason for this is perhaps the consistently high on time-performance of around 90 per cent of both airlines on the route. With a total of 15 services per week the flight schedule was rated as good to excellent by 69 per cent of surveyed passengers.

Table 9: Service satisfaction ratings – Learmonth

CATEGORY	EXCELLENT	VERY GOOD	GOOD	ACCEPTABLE	POOR	VERY POOR	EXTREMELY POOR
Air fare	11%	14%	25%	35%	12%	2%	1%
Convenience of flight times	14%	26%	29%	22%	6%	2%	1%
Quality of service	30%	36%	23%	8%	1%	1%	1%

Source: passenger surveys conducted by both airlines over two weeks in July-August 2013.

Future regulatory options

In the competitive environment on the Perth-Learmonth route there has been an imbalance in the number of air services provided by both airlines - with QantasLink providing 12 air services per week and VARA providing only three.

This discrepancy is largely due to the significant size of corporate market (mining clients) serviced by QantasLink and without which the RPT services would otherwise be less frequent or provided in smaller aircraft. From this viewpoint, it is perhaps not surprising that VARA, servicing only the leisure market, is no longer able to operate on the route.

Although it is uncertain whether there will be competition on the Perth-Learmonth route beyond 2016, there is no imperative for regulation at this point in time. In a fully deregulated environment market forces will drive demand and supply on the route which may foster airline competition. The passenger volume of over 86,500 on the Perth-Learmonth route is considered relatively high and suggests that there is an opportunity for such demand to potentially be met again by two operators in the future. This will be more likely if two airlines each have a reasonable share of the corporate market (oil/gas mining clients) in the region.

The Perth-Learmonth route can be compared to the Perth-Geraldton route in terms of annual passenger movements and frequency of flights. The Perth-Geraldton route was deregulated in 2011 when the annual passenger volume was approximately 100,000.

Deregulation of the air route and open competition proved positive for Western Australians, resulting in:

- greater choice for consumers through the presence of two large carriers (Qantas and Virgin Australia);
- a capacity increase of 38 per cent from 2011 to 2013;

- drop of average fare by 6.7 per cent from 2011 to 2012 (comparing Q3 in each year); and
- an increase of passenger numbers by 35 per cent from 2011 to 2012 (comparing Q3 in each year).

With over 86,000 passengers per year the risk of market failure on the Perth-Learmonth route if deregulated beyond 2016 is low. Nevertheless, to ensure adequate air services in the future and minimise any potential threats of market failure in an unregulated environment the State Government will undertake the following actions:

- monitor and review the route to ensure any undesirable consequences are identified; this will also include undertaking a risk assessment of the deregulated route and identifying mitigating actions for each risk;
- maintain statistics and industry knowledge on the route which will enable a “before and after deregulation” analysis through conditions on airline licences;
- liaise with and encourage airlines to engage directly with regional communities and stakeholders in WA, for example through community forums and events, where DoT can also participate as required;
- monitor airfares to ensure monopolistic behaviour does not occur, liaising with airlines in the first instance where community concerns are raised and if necessary engaging with the Australian Competition and Consumer Commission to prevent or eliminate any anti-competitive behaviour (for example, taking advantage of market power); and
- re-regulate the route should RPT air operations be determined to be conducted in a manner that is not in the best interests of the community in terms of the frequency, reliability and affordability of air services.



Source Virgin Australia

Key findings

- Located on the north-west coastline of Western Australia, Exmouth is a small, remote town with strong tourism and resource industries. Due to the high temperatures in summer seasonality is a key factor in air service provision for tourists and leisure travellers. On the other hand, many of the RPT air services, provided on the Perth-Learmonth route, are underwritten by the oil and gas sector.
- Of all regulated air routes in the State, Perth-Learmonth has the highest volume of approximately 86,500 passengers per year, and is the busiest WA regulated air route. QantasLink and VARA, both large carriers, have been operating in competition providing a combined level of 15 services per week in jet aircraft. These accommodate demand from both the business and tourism/leisure markets.
- Airfares have become cheaper over the past two years. This can be largely attributed to the increased passenger demand which has more than doubled in seven years, but also to the head-to-head price competition of two airlines operating in a partially deregulated environment.
- Although it is uncertain whether there will be competition on the Perth-Learmonth route beyond 2016, there is little risk in fully deregulating the route. Current passenger traffic is the highest of all regulated RPT routes and may enable competition again in the future. Risk management strategies have been identified, including monitoring of the number of passenger movements and airfares. This monitoring will provide an early warning for the State Government as to whether re-regulation will be necessary.

Recommendation:

Fully deregulate the Perth-Learmonth (Exmouth) air route beyond February 2016.

6.2. From Perth to Albany (Great Southern Region)

Regional location

Albany is located 409 km south-east of Perth, which takes less than an hour by plane or approximately 4.5 hours by car via Albany Highway. With a considerable population of 30,600 Albany is one of the largest cities in WA and the service centre of the Great Southern region, which comprises more than 56,000 people.¹⁴

Demand profile

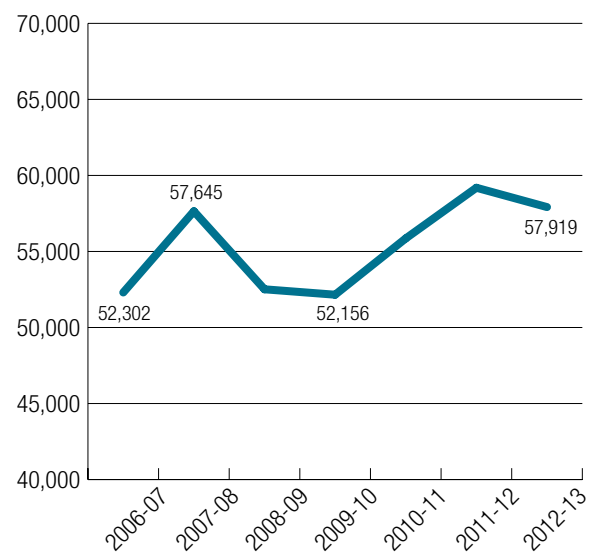
While Albany may not generally be considered a remote town, residents, business travellers and visitors to the region benefit from the regular flights connecting Albany to Perth. This agricultural region is renowned for its production of wheat, barley, oats and wine, and its coastline adds a tourism aspect to the area.¹⁵

The number of passenger movements through the Albany airport (table 10 and figure 4) shows limited growth over the last seven years. Nevertheless, with nearly 58,000 passenger movements in 2012-13, Perth-Albany is the second busiest regulated air route in WA, after the Perth-Learmonth route which was partially deregulated in 2011 allowing two airlines to operate in competition.

Table 10: Albany passenger movements

FINANCIAL YEAR	ALBANY PASSENGER MOVEMENTS
2006-07	52,302
2007-08	57,645
2008-09	52,512
2009-10	52,156
2010-11	55,859
2011-12	59,190
2012-13	57,919

Figure 4: Albany passenger movements



¹⁴ Australian Bureau of Statistics [ABS], 2011. *Census quick stats*. Retrieved from <http://www.abs.gov.au/websitedbs/censushome.nsf/home/quickstats?opendocument&navpos=220>

¹⁵ Migration WA, n.d. *Australia and Western Australia*. Retrieved October 22, 2013 http://www.migration.wa.gov.au/Living/Australia_WesternAustralia/Pages/AustraliaAndWesternAustralia.aspx



Frequency of services and operator

The Perth-Albany route is currently serviced by a sole RPT operator - Virgin Australia Regional Airlines (VARA, previously known as Skywest Airlines). The primary aircraft used on the route is a Fokker 50 turboprop with a capacity of 50 seats. With 20 return RPT services per week, some stakeholders suggest that the route is currently over-serviced.

Two of the 20 weekly services on the Perth-Albany route are provided via Busselton. The Perth-Busselton route is not regulated. There is some doubt regarding the viability on the Perth-Busselton route in the long run as the current level of demand for RPT air services between Perth and Busselton is very low.

From an airline's viewpoint sustaining the current number of air services on the Perth-Albany route is closely associated with the load factor. The load factor on the Perth-Albany route in 2012-13 was significantly below the desired level of at least 75 per cent. Increasing the load factor on the Perth-Albany air route through a reduced number of weekly services is likely to result in greater efficiency in operations, which in turn can lead to lower airfares as the airline meets demand more efficiently.

Airfares

Airfares on the Perth-Albany route are among the highest regional airfares in Australia based on cost per kilometre. The average one-way fare on the Perth-Albany route was \$233 in 2012-13 (table 11). This was more expensive than a one-way flight on the Perth-Learmonth (Exmouth) route in the same period. The Perth-Learmonth route has been partially deregulated with a similar number of services and a distance approximately three times longer.

One reason for the high airfares on the Perth-Albany route is the level of taxes and fees, including security screening charges. Amounting to approximately \$65 per passenger each way, these taxes make up a considerable percentage of the total fare and are paid by the consumer. The high air fares are most likely deterring people living in Perth from flying to Albany on holidays and therefore detracting from tourism in the region.

Concession airfares for local residents, students and the elderly are available on the route. However, in general, discounted fares offered on the route are rather limited, and the State Government has little control over the number and extent of discounts.

Table 11: Albany average airfare

FINANCIAL YEAR	ALBANY AVERAGE AIRFARE (ONE WAY)
2011-12	\$221
2012-13	\$233

*Average airfares are based on data provided by airline to DoT.

It is likely that the high airfares, coupled with the reasonable alternative of travelling by road, is the cause of Albany's low propensity to fly (that is, the annual passenger movements per head of population) as indicated in table 12. On the Perth-Albany route the propensity to fly measure of 1.64 is lower than might be expected. While the figures of propensity to fly on this route are not definitive they provide a broad indication of the relative use of RPT services by the local community compared to other regional towns.



Table 12: Propensity to fly

TOWN	AIR DISTANCE FROM PERTH (KM)	POPULATION	ANNUAL PASSENGER MOVEMENTS	PROPENSITY TO FLY
Albany	390	35,400	57,919	1.64
Carnarvon	816	5,700	25,137	4.41
Esperance	720	13,500	44,813	3.32
Geraldton	370	36,900	130,530	3.50

Source: BITRE (air distance), ABS (population), and DoT (2012-13 passenger data)

Users of RPT service

Data from on-board passenger surveys with a sample size of approximately 200 conducted on the route over two weeks in July-August 2013 show that the majority (68.8 per cent) of surveyed travellers are Albany residents, 21.6 per cent are Perth residents, and 9.5 per cent are from somewhere else (table 13). It is interesting to note that the majority (74 per cent) of the surveyed non-Perth residents come from other regions throughout Western Australia, almost a quarter (23.9 per cent) reside in other states in Australia, and a very small number (2.2 per cent) visit from overseas.

Table 13: Breakdown of residents – Albany

ALBANY TRAVEL		NON PERTH RESIDENTS	
Perth residents	21.6%	Interstate Australia	23.9%
Albany residents	68.8%	International	2.2%
Non-Perth residents	9.5%	Country WA	73.9%

As shown in table 14 the majority (62 per cent) of surveyed passengers travel on the Perth-Albany route for business purposes. Of all surveyed passengers, only 11.9 per cent use the RPT flights for holiday or leisure purposes. From a consumer’s perspective road transport is a ready substitute for flights between Perth and Albany. For example, the short drive of approximately 4.5 hours by car

between Perth and Albany means travellers can readily consider a trade-off between high airfares and travel duration or choose a different holiday destination altogether. In addition, people can also decide to use bus services offered by TransWA, which operate seven times a week between Perth and Albany.¹⁶

Table 14 and figure 5 show that nearly 84 per cent of surveyed Perth residents use the RPT air service for work purposes. Business travellers are less responsive to changes in price than leisure travellers therefore, demand for air services is price-inelastic for the corporate market.

Only 4.7 per cent of surveyed Perth residents fly to Albany on holiday. Importantly, tourism-related traffic is almost all one-way and currently air services barely bring any tourists to Albany, thus the majority of people flying on the Perth-Albany route for tourism purposes are Albany residents. Preliminary stakeholders’ views indicate that the leisure market for Albany could be expanded by fostering holiday packages inclusive of flights, accommodation and car hire. Wider awareness of the region’s tourism activities in the future may increase the potential for greater air traffic and boost the city’s business opportunities.

It is also important to note that approximately one-fifth of surveyed Albany residents (21.2 per cent) use the RPT air services to Perth for medical reasons. This indicates that flights are a necessity for the regional community and an important service for people’s welfare.

¹⁶ TransWA, 2013. *Service timetables*. Retrieved October 3, 2013 from <https://www.transwa.wa.gov.au/Default.aspx?tabid=95>

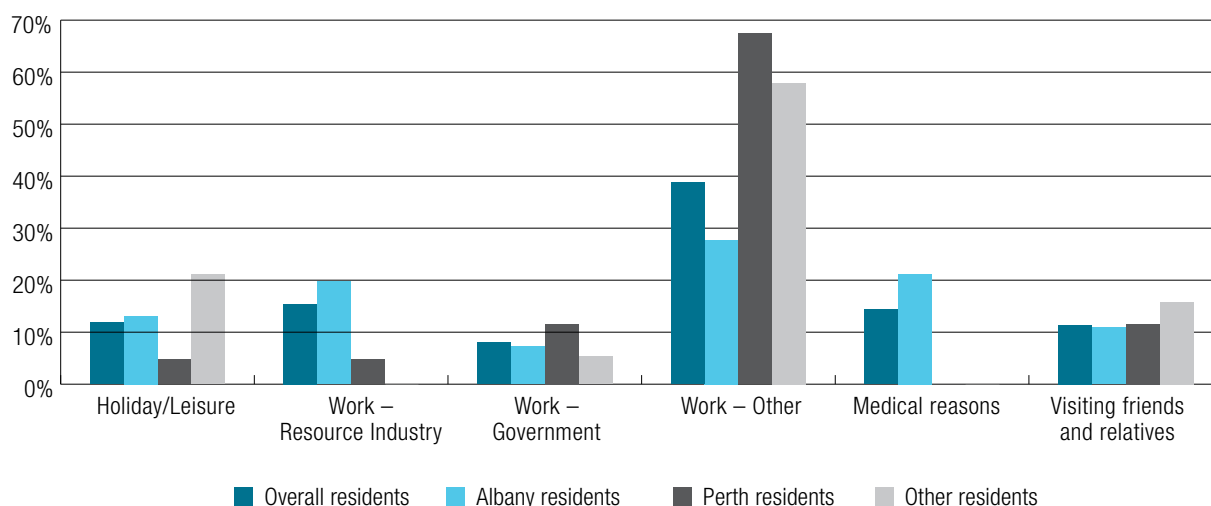
Table 14: Purpose of air travel – Albany

PURPOSE OF AIR TRAVEL – ALBANY	OVERALL RESPONSE RATE %
Work – Resource industry	15.4
Work – Government	8.0
Work – Other	38.8
Total work	62.2
Holiday / leisure	11.9
Medical reasons	14.4
Visiting friends and relatives	11.4
Total	100%

PURPOSE OF AIR TRAVEL	ALBANY RESIDENTS %	PERTH RESIDENTS %	OTHER RESIDENTS %
Work – Resource industry	19.7	4.7	0
Work – Government	7.3	11.6	5.3
Work – Other	27.7	67.4	57.9
Total work	54.7	83.7	63.2
Holiday / leisure	13.1	4.7	21.1
Medical reasons	21.2	0	0
Visiting friends and relatives	10.9	11.6	15.8
Total	100%	100%	100%

Source: passenger surveys conducted by both airlines over two weeks in July-August 2013.

Figure 5: Purpose of air travel – Albany



Survey data in table 15 indicate that 36.6 per cent of passengers find current airfares unacceptable (rating them poor to very poor), 33.7 per cent find them acceptable and 29.6 per cent rate airfares as good to excellent. On the other hand, the majority of surveyed passengers appears to be satisfied with the convenience of flight times (88 per cent rate the service as acceptable to excellent).

This is most likely because of the high frequency of services and low number of flight delays. Overall on-time performance has consistently been well above the benchmark of 80 per cent established under the airline deed. Similarly, surveyed travellers value the current quality of flights highly, with a majority (60.5 per cent) rating the air services as very good or excellent.

Table 15: Service satisfaction ratings – Albany

CATEGORY	EXCELLENT	VERY GOOD	GOOD	ACCEPTABLE	POOR	VERY POOR	EXTREMELY POOR
Air fare	3.0%	8.0%	18.6%	33.7%	22.1%	6.5%	8.0%
Convenience of flight times	10.5%	24.0%	29.0%	24.5%	9.5%	2.0%	0.5%
Quality of service	19.5%	41.0%	27.5%	11.0%	0.5%	0.5%	0.0%

Source: passenger surveys conducted by VARA over two weeks in July-August 2013.

Future regulatory options

Preliminary feedback from stakeholders regarding the best regulatory options for the Perth-Albany route in the future has been mixed.

Some stakeholders believe that if the route were deregulated beyond 2016 it would attract a new operator, providing the community with more choice. The presence of two or more air operators on the route could stimulate a price war between rivals and the potentially lower average airfares would ultimately increase passenger demand. However, having two or more airlines operating on the route could result in fewer air services or use of smaller aircraft to ensure sufficiently high-load factors and adequate profitability for each operator.

Demand on the Perth-Albany air route is not subject to the same volatility that can occur on resource-based routes. The lack of significant mining activities in the region means that the few and irregular charter operations in this precinct have no adverse impact on the RPT route. Hence, if the route is deregulated, demand for air services on the Perth-Albany route will be driven by the forces of the community and general business markets.

By contrast, other stakeholders have expressed a position that the current passenger demand on the Perth-Albany route is sufficient for one operator only. This means that even if a new rival were to enter the potentially unregulated market after 2016, it is possible that one of the two airlines operating on the route would be forced to exit the market if unable to sustain intense competition. As in most unregulated markets, however, the threat of perceived competition from new entrants remains and may enable more competitive prices. Where monopolistic behaviour is evident, this would be regarded as market failure due to inadequate frequency, reliability and affordability of air services. In such cases, the State Government could intervene and re-regulate the route.

Regional routes elsewhere in Australia sustain regular air services with much lower traffic volumes and without government regulation or subsidy. For example, in New South Wales, routes with more than 50,000 passengers per year are not regulated. Moreover, in South Australia some RPT air routes with passenger movements as low as 11,000 per year are not regulated and are provided to regional communities without government subsidy. This suggests that the Perth-Albany route could sustain deregulation.

Deregulation of the Perth-Albany route can provide greater flexibility for airlines to respond to customer needs quickly, which can then potentially lead to lower airfares through competition. Even if the number of RPT services is reduced, it can be expected that a sufficient level of air services will continue to be provided in an unregulated environment.

In summary, it can be concluded that the risk of market failure on the Perth-Albany route if deregulated beyond 2016 is relatively low. Nevertheless, there is a significant likelihood that if the route were to be opened to competition that only one operator would operate the route. The community needs to be assured that should this occur the single operator does not operate in a monopolistic manner and take market advantage of the community. This is particularly the case in respect of pricing and scheduling. Further, the community wants to be assured that any airline which operates on the route responds to the specific regional economic and social context of the region. The community sees the potential of reduced airline fares and increased demand to act as a stimulus for the region. Equally, airlines are clear that they only represent one component of a multi-faceted picture in which others such as the City of Albany, commerce, industry, tourist operators and their respective bodies need to play a combined role to enable aviation to be an economic lever within the region.

The State Government is clear about aiming to reduce “red tape” across all areas of government so that business can directly meet the needs of consumers. In the case of regulated air routes the State prefers a “light handed” regulatory approach to air routes while assuring the community that fundamental aspects of airline service provision have appropriate oversight.

The State Government must ensure oversight of aviation operations regarding scheduling, pricing and community engagement.

Community engagement would require the airline to convene a Community Consultation Group (CCG) for the route that included wide representation of the users of the service. The airline would be required to bring to the attention of its CCG the schedule of prices that it intended to charge and the level of discounting on the route. Changes in fares would be subject to the approval of the Minister for Transport where the airline would have to demonstrate the level of engagement that they had undertaken with the CCG. A similar process would have to be undertaken in respect of any changes in the airline schedule. Should a second operator enter the market, there would be no need for State Government oversight of schedules and fares, as occurred while two operators serviced the Exmouth route.

In this way, the State Government allows the potential for additional airlines to enter the market but with sufficient oversight of those matters which are of most concern to the community.

Over time, market conditions may change on the route as the region continues to develop. Conditions attached to those airlines operating on the Albany route may then be seen as superfluous where the market has reached a stage of maturity or passenger demand has increased sufficiently such that the conditions can be gradually removed, to reduce red tape and encourage competition.

Key findings

- *With a high volume of nearly 58,000 passengers per year, Perth-Albany is the second busiest WA regulated air route. Regional air routes elsewhere in Australia sustain regular air services with much lower traffic volumes and without government regulation or subsidy. Deregulation of some regional routes in WA has delivered better outcomes for the community, including greater choice and lower airfares.*
- *Airfares on the Perth-Albany route are high with a limited number of discounted fares being offered. The restriction of competition on the route inhibits the potential for price discounting. Very few people travel from Perth to Albany on holiday. The high fares detract from enhanced local tourism and business opportunities.*
- *The risk in deregulating the Perth-Albany route is relatively low. Nevertheless, there is a significant likelihood that if the route were to be opened to competition that only one operator would operate the route. The community needs to be assured that should this occur the single operator does not operate in a monopolistic manner and take market advantage of the community. This is particularly the case in respect of pricing and scheduling.*

Recommendation:

Reduce regulation on the Perth-Albany air route beyond February 2016 and open the route to potential competition. The State Government will ensure oversight of scheduling, pricing and community engagement for air services if appropriate.

6.3. From Perth to Esperance (Goldfields-Esperance Region)

Regional location

Esperance is located approximately 720 km south-east of Perth in close proximity to a beautiful coastline, white beaches, turquoise waters and various national parks. The town of Esperance has a population of approximately 9900¹⁷ and is a major centre in the southern part of the Goldfields-Esperance region. The considerable distance from WA’s capital not only makes Esperance a remote town, but it also provides a solid basis for the need for accessible and adequate air services for community members and visitors. Compared to the seven-hour drive by road, the short flight of less than two hours between Perth and Esperance is a faster and preferred alternative for many residents, business travellers and tourists. Therefore, air services play a fundamental role in the economic and social development of the town.

Demand profile

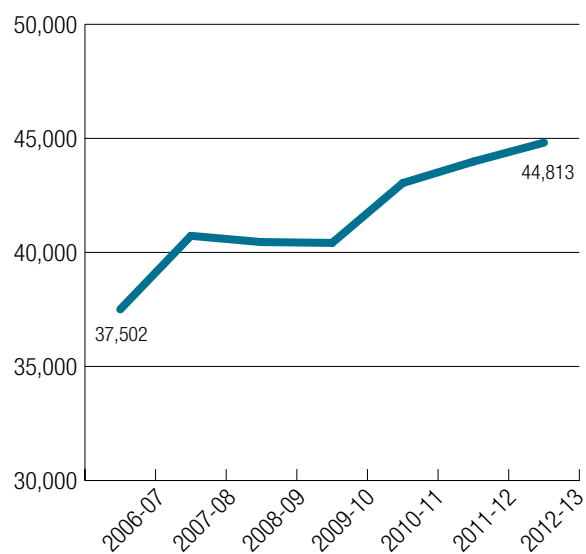
Esperance’s key economic drivers are tourism, commercial fishing, agriculture of grain, wool and livestock and mining.¹⁸ As a vibrant and productive area, the Goldfields-Esperance region contributes greatly to the economy of the State. More than 420,000 domestic leisure travellers and 43,000 international tourists visit the region to explore its beautiful rangelands, national parks and coastlines.¹⁹

Over the past seven years, traffic on the Perth-Esperance air route has grown by nearly 20 per cent as shown in table 16. Compared to other regulated regional routes in WA, the Perth-Esperance route’s volume is considerable with nearly 45,000 passenger movements in 2012-13.

Table 16: Esperance passenger movements

FINANCIAL YEAR	ESPERANCE PASSENGER MOVEMENTS
2006-07	37,502
2007-08	40,727
2008-09	40,453
2009-10	40,417
2010-11	43,040
2011-12	43,982
2012-13	44,813

Figure 6: Esperance passenger movements



Frequency of services and operator

The Perth-Esperance route is currently serviced by a sole RPT operator — Virgin Australia Regional Airlines (VARA, previously known as Skywest Airlines). The aircraft primarily used is a Fokker 50 turboprop with a capacity of 50 seats. With 18 return RPT services per week, some stakeholders have suggested that the route is currently over-served.

¹⁷ Australian Bureau of Statistics [ABS], 2011. *Census quick stats*. Retrieved from <http://www.abs.gov.au/websitedbs/censushome.nsf/home/quickstats?opendocument&navpos=220>

¹⁸ About Esperance, n.d. Retrieved November 17, 2013 from the Visit Esperance website <http://www.visitesperance.com/pages/about-esperance>

¹⁹ Goldfields-Esperance Development Commission, 2012. 2011–2021 *Strategic Development Plan*. Retrieved November 4, 2013 from http://www.rdage.com.au/uploaded/files/client_added/ge%20regional%20plan_revised2012.pdf

Two of the 18 services on the Perth-Esperance route are provided via Ravensthorpe and in addition to this, one direct RPT service per week is provided between Perth and Ravensthorpe. The Perth-Ravensthorpe route is not regulated. The town of Ravensthorpe which is some 540 km south-east of Perth and 190 km north-west of Esperance, is largely driven by nickel mining operations. While the current level of demand for RPT air services to and from Ravensthorpe as part of the greater Perth-Esperance route is sufficient, the future sustainability of multiple direct services per week between Perth and Ravensthorpe alone is questionable. This is mostly due to the high volatility of the resources sector in the southern part of the Goldfields-Esperance region, which creates some uncertainty around the long-term viability of mining activity.

From an airline's viewpoint, the ability to sustain the current number of air services on the Perth-Esperance route is closely associated with the load factor. The load factor on the Perth-Esperance route in 2012-13 is deemed significantly below the desired level of at least 75 per cent. Increasing the load factor on the Perth-Esperance air route through a reduced number of weekly services is likely to result in greater efficiency in operations, which in turn may lead to lower airfares as the airline meets demand more efficiently.

Airfares

Airfares on the Perth-Esperance route are amongst the highest regional airfares in Australia based on cost per kilometre. The average one-way fare on the route was \$284 in 2012-13 (table 17). This fare is comparable to the average fare for a one-way flight between Perth and Kalgoorlie, the latter of which is an unregulated route with a similar number of services per week and similar distance (Kalgoorlie is located approximately 600 km east of Perth). However, given the high level of mining activities in the area of Kalgoorlie, the corporate market is the predominant user of RPT air services and the market is regarded as price-inelastic by airlines.

One reason for the high prices on the Perth-Esperance route is the level of taxes and fees, including security screening charges. Amounting to some \$60 per passenger each way, these taxes make up a considerable percentage of the total fare and are paid by the consumer. The high air fares are likely to be deterring people living in Perth from flying to Esperance on holidays and therefore detract from tourism in the region.

Concession airfares for local residents, students and the elderly are available on the route. However, in general, discounted fares offered on the route are rather limited, and the State Government has little control over the number and extent of discounts. It is worth however recognising a recent decline in airfares on the route. For example, in the period August 2013 to January 2014 the average fare dropped as low as \$225.

Table 17: Average airfare – Esperance

FINANCIAL YEAR	ESPERANCE AVERAGE AIRFARE (ONE WAY)
2011-12	\$284
2012-13	\$284

*Average airfares are based on data provided by airline to DoT.

It is likely that high airfares, coupled with the reasonable alternative of travelling by road, is the cause of Esperance's relatively low propensity to fly (that is the annual passenger movements per head of population) as indicated in table 18. On the Perth-Esperance route, the propensity to fly measure of 3.32 is lower than could be expected. While the figures of propensity to fly on this route are not definitive, they provide a broad indication of the relative use of RPT services by the local community compared to other regional towns.

Table 18: Propensity to fly

TOWN	AIR DISTANCE FROM PERTH (KM)	POPULATION	ANNUAL PASSENGER MOVEMENTS	PROPENSITY TO FLY
Albany	390	35,400	57,919	1.64
Carnarvon	816	5,700	25,137	4.41
Esperance	720	13,500	44,813	3.32
Geraldton	370	36,900	130,530	3.50

* Source: BITRE (air distance), ABS (population), and DoT (2012-13 passenger data)

Users of RPT services

Responses from on-board passenger surveys conducted on the route over two weeks in July-August 2013 show that nearly 42 per cent of surveyed travellers are Perth residents, 38 per cent are Esperance residents and 20 per cent are from somewhere else. The survey sample size was approximately 220. It is interesting to note that more than half (52.6 per cent) of the non-Perth residents come from other regions throughout Western Australia, 45 per cent reside in other states in Australia, and a very small number (2.7 per cent) visit from overseas (table 19).

Table 19: Breakdown of residents – Esperance

ESPERANCE TRAVEL		NON PERTH RESIDENTS	
Perth residents	41.9%	Interstate Australia	44.7%
Esperance residents	37.8%	International	2.7%
Non-Perth residents	20.3%	Country WA	52.6%

Table 20 shows that the majority (68.2 per cent) of surveyed passengers commute on the Perth-Esperance air route for business purposes. Only 12.1 per cent use the RPT flights for holiday or leisure purposes. From a consumer's perspective, road transport is a substitute for flights between Perth and Esperance, so it could be that most visitors to the area prefer to drive.

In addition, the six weekly bus services offered by TransWA between Perth and Esperance²⁰ can be another travel option which means that travellers can consider a trade-off between high airfares and travel duration or simply choose a different holiday destination.

The majority (87.5 per cent) of surveyed Perth residents use the RPT air service for work purposes. Business travellers are less responsive to changes in price than leisure travellers, therefore, demand for air services is price-inelastic for the corporate market.

Only 4.2 per cent of surveyed Perth residents fly to Esperance on holiday. Tourism-related traffic is mostly one-way and currently air services barely bring any tourists to Esperance, i.e., the majority of people flying on the Perth-Esperance route for tourism purposes are Esperance residents. Preliminary stakeholders' views indicate that the leisure market for Esperance could be expanded by fostering holiday packages inclusive of flights, accommodation and car hire. Wider awareness of the region's tourism activities in the future may increase the potential for greater air traffic and boost the city's business opportunities.

It is also important to note that a significant portion of surveyed Esperance residents (15.4 per cent) use the RPT air services to Perth for medical reasons. This indicates that flights are a necessity for the regional community and an important service for people's welfare.

²⁰ TransWA, 2013. *Service timetables*. Retrieved October 3, 2013 from <https://www.transwa.wa.gov.au/Default.aspx?tabid=95>

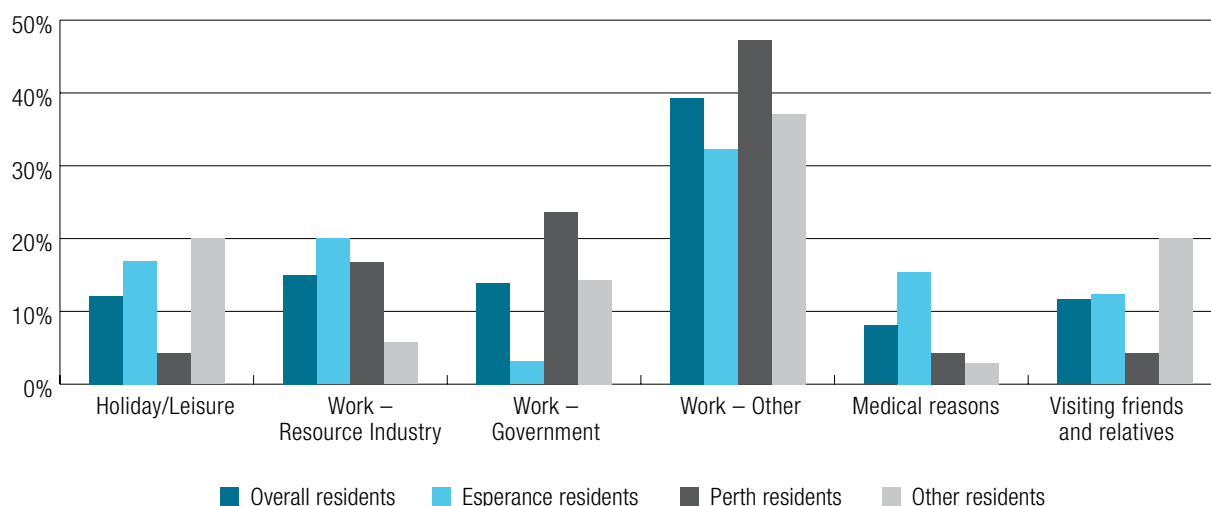
Table 20: Purpose of air travel – Esperance

PURPOSE OF AIR TRAVEL	OVERALL RESPONSE RATE %
Work – Resource industry	15.0
Work – Government	13.9
Work – Other	39.3
Total work	68.2
Holiday / leisure	12.1
Medical reasons	8.1
Visiting friends and relatives	11.6
Total	100%

PURPOSE OF AIR TRAVEL	ESPERANCE RESIDENTS %	PERTH RESIDENTS %	OTHER RESIDENTS %
Work – Resource industry	20.0	16.7	5.7
Work – Government	3.1	23.6	14.3
Work – Other	32.3	47.2	37.1
Total work	55.4	87.5	57.1
Holiday / leisure	16.9	4.2	20.0
Medical reasons	15.4	4.2	2.9
Visiting friends and relatives	12.3	4.2	20.0
Total	100%	100%	100%

Source: passenger surveys conducted over two weeks in July-August 2013.

Figure 7: Purpose of air travel – Esperance



Survey data in table 21 indicate that over 47 per cent of passengers find current airfares on the route unacceptable (rating them poor to extremely poor), 23 per cent rate them acceptable and 30 per cent rate them good to excellent. The majority of surveyed passengers appear to be satisfied with the convenience of flight times (92 per cent rate the current schedule

as acceptable to excellent). This is most likely because of the high frequency of services and low number of flight delays. Nearly all (95 per cent) surveyed travellers appear to be satisfied with the current quality of air services, with a majority of passengers (62 per cent) rating the service as very good or excellent.



Esperance airport
Source: Shire of Esperance

Table 21: Service satisfaction ratings – Esperance

CATEGORY	EXCELLENT	VERY GOOD	GOOD	ACCEPTABLE	POOR	VERY POOR	EXTREMELY POOR
Air fare	8.0%	6.9%	14.9%	23.0%	18.4%	14.4%	14.4%
Convenience of flight times	14.4%	25.9%	27.0%	24.7%	2.9%	2.9%	2.3%
Quality of service	27.0%	35.6%	21.3%	11.5%	3.4%	0.6%	0.6%

Source: passenger surveys conducted by VARA over two weeks in July-August 2013.

Future regulatory options

Preliminary feedback from stakeholders regarding the best regulatory options for the Perth-Esperance route in the future has been mixed.

Some stakeholders believe that, if the route were deregulated beyond 2016, it would attract a new operator, providing the community with more choice. The presence of two air operators on the route could then stimulate price wars between rivals and the potentially lower average airfares would ultimately increase passenger demand. As only 15 per cent of surveyed passengers using the Perth-Esperance RPT air services are mining workers, it can be argued that the Perth-Esperance RPT air route is not particularly affected by significant fluctuations in the resources sector. The demand for RPT flights from the resources sector is predominantly associated with the mining activities around Ravensthorpe, located approximately 190 km from Esperance. The few and irregular charter operations in this precinct have no adverse impact on the RPT route. Hence, if the route is deregulated, demand for air services on the Perth-Esperance route will be simply driven by the forces of the community and general business markets.

By contrast, other stakeholders have expressed a position that the current passenger demand on the Perth-Esperance route is sufficient for

one operator only. This means that even if a new rival were to enter the potentially unregulated market after 2016, it is possible that airlines would be forced to exit the market if they are unable to sustain intense competition. As in most unregulated markets, however, the threat of perceived competition from new entrants will remain and may enable more competitive prices. Where monopolistic behaviour is evident, this would be regarded as market failure due to inadequate frequency, reliability and affordability of air services. In such cases, the State Government could intervene and re-regulate the route.

Regional routes elsewhere in Australia sustain regular air services with much lower traffic volumes and without government regulation or subsidy. For example, in South Australia some RPT air routes with passenger movements as low as 11,000 per year are not regulated and are provided to regional communities without government subsidy. This suggests that the Perth-Esperance route can sustain deregulation.

Deregulation of the Perth-Esperance route can provide greater flexibility for airlines to respond to customer needs quickly, which can then potentially lead to lower airfares through competition. Even if the number of RPT services is reduced, it can be expected that an adequate level of air services will continue to be provided in an unregulated environment.

In summary, it can be concluded that the risk of market failure on the Perth-Esperance route if deregulated beyond 2016 is relatively low. Nevertheless, there is a significant likelihood that if the route were to be opened to competition that only one operator would operate the route. The community needs to be assured that should this occur the single operator does not operate in a monopolistic manner and take market advantage of the community. This is particularly the case in respect of pricing and scheduling. Further, the community wants to be assured that any airline which operates on the route responds to the specific regional economic and social context of the region. The community sees the potential of reduced airline fares and increased demand to act as a stimulus for the region. Equally, airlines are clear that they only represent one component of a multi-faceted picture in which others such as the Shire of Esperance, commerce, industry, tourist operators and their respective bodies need to play a combined role to enable aviation to be an economic lever within the region.

The State Government is clear about aiming to reduce “red tape” across all areas of government such that business can directly meet the needs of consumers. In the case of regulated air routes the State Government prefers a “light handed” regulatory approach to air routes while assuring the community that fundamental aspects of airline service provision have appropriate oversight.

The State Government must ensure oversight of aviation operations regarding scheduling, pricing and community engagement.

Community engagement would require the airline to convene a Community Consultation Group (CCG) for the route that included wide representation of the users of the service. The airline would be required to bring to the attention of its CCG the schedule of prices that it intended to charge and the level of discounting on the route. Changes in fares would be subject to the approval of the Minister for Transport, where the airline would have to demonstrate the level of engagement that they had undertaken with the CCG. A similar process would have to be undertaken in respect of changes in the airline schedule.

Should a second operator enter the market, there would be no need for government oversight of schedules and fares, as occurred while two operators serviced the Exmouth route.

In this way, the State Government allows the potential for additional airlines to enter the market but with sufficient oversight of those matters which are of most concern to the community.

Over time, market conditions may change on the route as the region continues to develop. Conditions attached to those airlines operating on the Esperance route may then be seen as superfluous where the market has reached a stage of maturity or passenger demand has increased sufficiently such that the conditions can be gradually removed, to reduce red tape and encourage competition.

Key findings

- *With a considerable volume of nearly 45,000 passengers per year, Perth-Esperance is one of the busiest WA regulated air routes. Regional air routes elsewhere in Australia sustain regular air services with much lower traffic volumes and without government regulation or subsidy. Deregulation of some regional routes in WA has delivered better outcomes for the community including greater choice and lower airfares.*
- *Airfares on the Perth-Esperance route are high with a limited number of discounted fares being offered. The lack of competition on the route inhibits the potential for price discounting. Few people travel by air from Perth to Esperance on holiday. The high fares detract from enhanced local tourism and business opportunities.*
- *The risk in deregulating the Perth-Esperance route is relatively low. Nevertheless, there is a significant likelihood that if the route were to be opened to competition that only one operator would operate the route. The community needs to be assured that should this occur the single operator does not operate in a monopolistic manner and take market advantage of the community. This is particularly the case in respect of pricing and scheduling.*

Recommendation:

Reduce regulation on the Perth-Esperance air route beyond February 2016 and open the route to potential competition. The State Government will ensure oversight of scheduling, pricing and community engagement for air services if appropriate.

6.4. From Perth to Carnarvon and Monkey Mia (Gascoyne Region)

Regional location

The Coral Coast area stretches over 1100 km along the coastline of WA including the regional centres of Carnarvon, Monkey Mia and Geraldton.

The town of Carnarvon has a population of 4500²¹ and is approximately 900 km north of Perth. This vast distance requires a 10-hour drive to Perth. As a result, local businesses, communities and tourists benefit from regular RPT air services. Monkey Mia is located over 800 km north of Perth in the vicinity of Denham – a small town of some 600 people. Monkey Mia is the only centre with air services in this remote area. This air service also serves the community of Denham as well as numerous tourists and visitors to the region. Monkey Mia currently receives regular air services without subsidy as an intermediate stop on some of the Perth to Carnarvon flights. As such, the two and a half hour flight from Perth provides an alternative travel mode for people unwilling to take the long drive.

Demand profile

From tourism, community, and industry perspectives air services on the Perth-Monkey Mia-Carnarvon route, referred to as the Coral Coast route, are central to the region's economy and also contribute to the social wellbeing of communities in the Gascoyne region. Carnarvon is renowned for its diverse horticultural activities, with over 160 plantations of various fruits and vegetables valued at \$51.3million, salt mining and pastoral activities for the production of meat and wool, and commercial fishing.²² Monkey Mia, situated within the Shark Bay World Heritage- listed area, is famous for its friendly dolphins. Monkey Mia is a unique and popular tourism icon and holiday destination in WA and attracts over 100,000 domestic and international visitors every year.²³ Beyond Monkey Mia is Francois Peron National Park, which is home to a number of threatened native animals and spectacular contrasting landscapes which provide a range of nature adventures.

Concerns have been raised that from an economic viewpoint that both the Perth-Carnarvon and Perth-Monkey Mia routes have a relatively low number of passengers, that is, they are marginal. Over the last seven years, while traffic on the Perth-Carnarvon route grew by nearly 25 per cent, during the three years to 2012-13 passenger movements have stabilised to around 25,000 per year as shown in table 22 and figure 8.

²¹ Australian Bureau of Statistics [ABS], 2011. *Census quick stats*. Retrieved from <http://www.abs.gov.au/websitedbs/censushome.nsf/home/quickstats?opendocument&navpos=220>

²² Horticulture. (n.d.). Retrieved from Shire of Carnarvon website <http://www.carnarvon.wa.gov.au/industries.php>

²³ Shark Bay. 2009. Retrieved from January 11, 2014 http://www.sharkbay.org/Monkey_Mia_dolphin_management.aspx



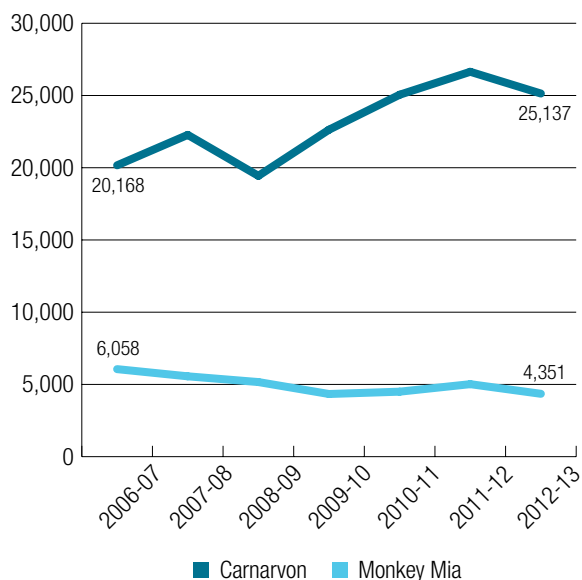
Carnarvon airport

Demand for flights to and from Monkey Mia appears to be declining with only 4300 passengers in 2012-13. If this trend continues, the viability of RPT services to this popular tourism destination may be at risk. It is presumed that the low passenger throughput is currently sufficient to cover the extra costs involved in making the stop to Monkey Mia. If not, deregulation of the Coral Coast route could put Monkey Mia flights at serious risk, leaving the town without any air services.

Table 22: Coral Coast passenger movements

FINANCIAL YEAR	CARNARVON	MONKEY MIA
2006-07	20,168	6058
2007-08	22,274	5561
2008-09	19,439	5164
2009-10	22,633	4337
2010-11	25,053	4498
2011-12	26,642	5018
2012-13	25,137	4351

Figure 8: Coral Coast passenger movements



Aspen Parks, the owner and manager of the Monkey Mia airport and Monkey Mia Dolphin Resort, has recently invested \$8.7 million in essential infrastructure at the resort, including a new \$2.2 million Membrane Bioreactor wastewater treatment plant to process all wastewater from the resort and associated visitor centre. A new water treatment plant and

a power house have also been constructed. These significant investments by Aspen Parks provide for the highest quality treated water and reduction of greenhouse emissions reflective of the environmentally sensitive location. The infrastructure upgrades also include additional capacity to support the future expansion of the Monkey Mia Dolphin resort. A further \$2 million has been invested by Aspen Parks in the redevelopment of leisure-related facilities at the resort, such as a restaurant and bars. This substantial investment demonstrates the commitment by Aspen Parks to the Monkey Mia and Shark Bay region. Sustained air services to Monkey Mia are critical to continuing to attract private sector tourism investment in Monkey Mia, Denham and the Shark Bay region.

Frequency of services and operator

The Coral Coast air route is currently serviced by a sole RPT operator – Skippers Aviation (Skippers). The aircraft primarily used on the route are the turboprop Dash-8 300 with a capacity of 30 or 36 seats and Embraer Brasilia with a capacity of 36 or 50 seats. Consistent with Commonwealth legislation administered by the Office of Transport Security (OTS), aircraft weighing less than 20,000 kg do not require passenger and baggage security screening. If however, Fokker 50 planes were to operate on the Coral Coast route they would be subject to security screening. Neither Carnarvon, nor Monkey Mia airports currently has security screening facilities in place. To allow landing of such planes the airports would need to make a significant investment in security screening equipment. This would not only take time but would also increase the cost of passenger flights on the route.

The route currently receives 10 return RPT services per week. There is also an additional optional service that is provided subject to demand at the discretion of the airline. Of the 11 weekly RPT services in total per week, three are direct between Perth and Carnarvon, five are via Monkey Mia (mostly to meet demand on weekends), and two are via Geraldton. It should be noted that Perth-Geraldton is an unregulated route.

From an airline’s viewpoint, sustaining the current number of air services on the Coral Coast route is closely associated with the load factor. The load factor on the Perth-Carnarvon route in 2012-13 was below the desired level of at least 75 per cent.

It should be noted that under the 2011 regulatory model, the Coral Coast route also included some services to and from Kalbarri. The extremely low number of passengers to Kalbarri generated virtually no revenue, and given the high costs associated with airport maintenance, RPT services connecting Kalbarri were permanently removed from the Coral Coast route by the State Government on 1 January 2013, in consultation with the community.

The current RPT provider on the Coral Coast route, Skippers, does not use a Global Distribution System (GDS), which is generally accessed by international travel agencies and operators. The cost for implementation of such GDS system is estimated at nearly \$1 million which, given the low revenue earned on the route, is not feasible. In addition, Skippers operates from the General Aviation precinct at Perth Airport and being a regional airline, it is not part of a national airline network. These factors, along with the lack of a GDS, have been negatively received by regional organisations in the Gascoyne region. Skippers has implemented a direct connect API (Application Programming Interface) with Discover Australia Holidays (DAH), however, which allow DAH to access Skippers' live inventory and thus operate as a sales and distribution channel. RPT services on the route are also promoted as part of holiday packages inclusive of flights, accommodation and car hire. This is achieved through collaboration between Skippers, Tourism WA, Discover Australia Holidays and Aspen Parks – the airport owner and manager at Monkey Mia. Wider awareness of the region's tourism activities in the future may increase air traffic, reduce airfares and boost local tourism opportunities.

Airfares

The average fare of \$333 and \$320 in 2012-13 for flights between Perth and Carnarvon and between Perth and Monkey Mia respectively are relatively high based on cost per kilometre. It should be recognised that due to the lack of security screening charges and other fees, the total taxes of approximately \$60 each way are a much lower portion of the airfare compared to those in other regional routes in WA, such as Perth to Albany or Esperance.

Residential fares are available at all times.

Some seasonal or promotional discounted fares are offered too. These are limited, however, and the State Government has little control over the number and extent of airfare discounts.

Table 23: Carnarvon and Monkey Mia average airfare

FINANCIAL YEAR	CARNARVON AVERAGE AIRFARE (ONE WAY)	MONKEY MIA AVERAGE AIRFARE (ONE WAY)
2011-12	\$306	\$260
2012-13	\$333	\$320

*Average airfares are based on data provided by airline to DoT.

Users of RPT services

Data from passenger surveys with a sample size of approximately 270 conducted on the route over two weeks in July-August 2013 on the Coral Coast air route show that 43.4 per cent of surveyed travellers are Perth residents, 35.6 per cent are Coral Coast (Carnarvon or Shark Bay) residents and 21 per cent are from somewhere else. It is interesting to note that 60 per cent of the non-Perth residents come from other states in Australia and the remainder (40 per cent) reside in other regions throughout Western Australia.

Table 24: Breakdown of residents – Carnarvon

CARNARVON TRAVEL		NON PERTH RESIDENTS	
Perth residents	43.4%	Interstate Australia	60%
Coral Coast residents	35.6%	International	0%
Non-Perth residents	21%	Country WA	40%

In table 25 results for the purpose of air travel are broken down for each of the two airports. Data shows that more than half (58.4 per cent) of surveyed passengers use the Carnarvon RPT air services for business purposes. Almost an equal portion (58.5 per cent) of travellers uses the Monkey Mia air services for holiday and leisure purposes, which is not surprising given the strong tourism aspect of the Shark Bay region.

Table 25: Travel purpose – Carnarvon and Monkey Mia

PURPOSE OF AIR TRAVEL	CARNARVON OVERALL RESPONSE RATE %	MONKEY MIA OVERALL RESPONSE RATE %
Work – Resource industry	13.7	9.8
Work – Government	15.8	0
Work – Other	28.9	17.1
Total work	58.4	26.9
Holiday / leisure	20.4	58.5
Medical reasons	10.2	2.4
Visiting friends and relatives	10.9	12.2
Total	100%	100%

Source: passenger surveys conducted over two weeks in July-August 2013.

As evident in tables 26 and 27 and figures 9 and 10, consideration needs to be given to the findings that a significant portion (18.5 per cent) of surveyed Carnarvon residents and a quarter (25 per cent) of Monkey Mia surveyed residents use the RPT air services for medical reasons. This demonstrates that air services provide access for residents to essential welfare facilities in Perth, which are vital for the wellbeing and living standards of regional communities.

Table 26: Travel purpose – Carnarvon residents

PURPOSE OF AIR TRAVEL – CARNARVON	CARNARVON RESIDENTS %	PERTH RESIDENTS %	OTHER RESIDENTS %
Work – Resource industry	8.3	19.6	13
Work – Government	4.6	25.9	18.5
Work – Other	19.4	39.3	31
Total work	32.3	84.8	63
Holiday / leisure	31.5	8	22.2
Medical reasons	18.5	2.7	5.5
Visiting friends and relatives	17.7	4.5	9.3
Total	100%	100%	100%

Source: passenger surveys conducted over two weeks in July-August 2013.

Table 27: Travel purpose – Monkey Mia residents

PURPOSE OF AIR TRAVEL – MONKEY MIA	MONKEY MIA RESIDENTS %	PERTH RESIDENTS %	OTHER RESIDENTS %
Work – Resource industry	25	5	18.2
Work – Government	0	0	0
Work – Other	25	20	18.2
Total work	50	25	36.4
Holiday / leisure	0	55	63.6
Medical reasons	25	0	0
Visiting friends and relatives	25	20	0
Total	100%	100%	100%

Source: passenger surveys conducted over two weeks in July-August 2013.

Figure 9: Purpose of air travel – Carnarvon

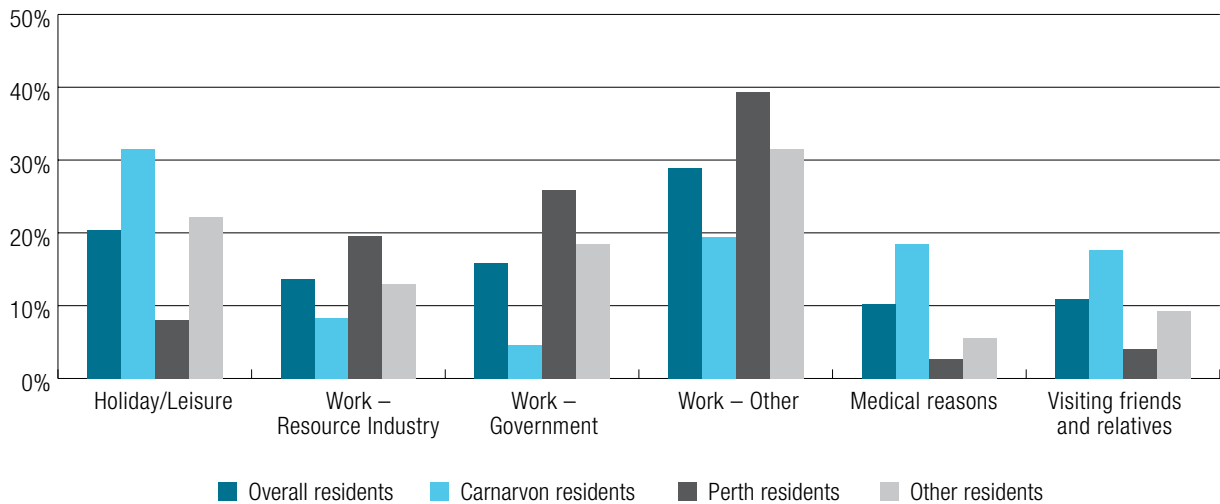
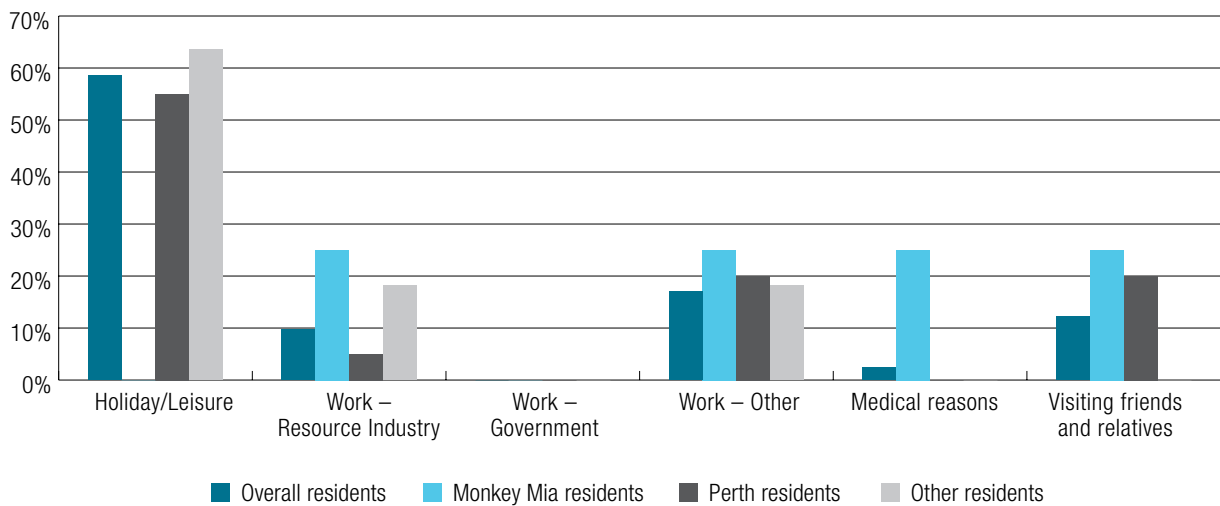
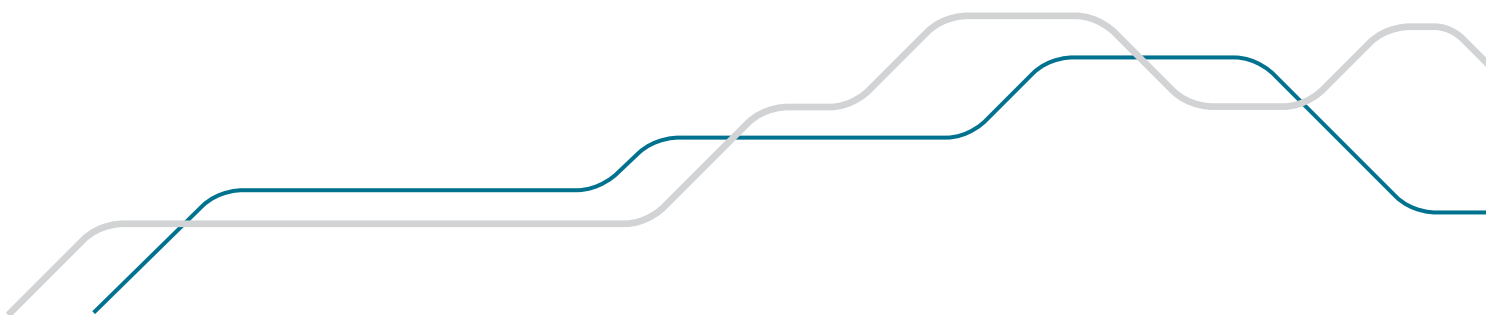


Figure 10: Purpose of air travel – Monkey Mia



Survey data in tables 28 and 29 indicate that 41.7 per cent and 21.9 per cent of surveyed Carnarvon and Monkey Mia passengers respectively find current airfares unacceptable, 28.8 per cent and 26.8 per cent rate them as acceptable, and 29.5 per cent and 51.3 per cent rate them good to excellent. Overall, travellers to

and from Carnarvon and Monkey Mia appear to be satisfied with the quality and schedule of air services; approximately half of Carnarvon survey respondents (52.5 per cent) rated the quality of flights as very good or excellent, while the majority of surveyed Monkey Mia travellers (87.8 per cent) rated the quality of flights very good or excellent.





Carnarvon airport

Table 28: Service satisfaction ratings – Carnarvon

CATEGORY	EXCELLENT	VERY GOOD	GOOD	ACCEPTABLE	POOR	VERY POOR	EXTREMELY POOR
Air fare	8.3%	9.0%	12.2%	28.8%	21.9%	9.7%	10.1%
Convenience of flight times	11.9%	20.2%	30.0%	27.4%	7.9%	1.4%	1.1%
Quality of service	23.4%	29.1%	24.1%	15.5%	4.0%	1.8%	2.2%

Source: passenger surveys conducted by Skippers over two weeks in July-August 2013.

Table 29: Service satisfaction ratings – Monkey Mia

CATEGORY	EXCELLENT	VERY GOOD	GOOD	ACCEPTABLE	POOR	VERY POOR	EXTREMELY POOR
Air fare	22.0%	4.9%	24.4%	26.8%	7.3%	2.4%	12.2%
Convenience of flight times	22.0%	31.7%	19.5%	4.9%	12.2%	4.9%	4.9%
Quality of service	43.9%	43.9%	7.3%	2.4%	2.4%	0.0%	0.0%

Source: passenger surveys conducted by Skippers over two weeks in July-August 2013.

Future regulatory options

Stakeholders have indicated in preliminary discussions that given the strong tourism aspect of Monkey Mia, it is vital air services continue to this iconic destination of the State. If the Coral Coast route were deregulated beyond 2016, it is possible that some airlines would be only interested in providing services to Carnarvon, which comprises

mostly a business market. Airlines may not be interested in servicing Monkey Mia due to the very low number of passengers, with just 4300 in the last financial year. Deregulation of the Coral Coast route, therefore, may potentially lead to complete market failure for Monkey Mia, whereby not a single air service will be provided to this popular holiday destination.

Overall, feedback from stakeholders indicates limited airline interest in the Coral Coast route in the future. This is due to the following reasons:

- With a relatively low passenger volume, the Coral Coast route is deemed marginal and the current level of profitability on the route is limited. The region currently has low levels of mining activity. At this stage, the potential for passenger growth in the near future is low.
- Current passenger demand on the Coral Coast route is sufficient for one operator only. Even if a new rival were to enter a potentially unregulated market after 2016, it is likely that the operation of two airlines would occur only for a short period prior to one of the airlines leaving the market, leading to an unregulated monopoly.
- Larger aircraft (over 20,000 kg) require passengers and baggage security screening. The use of such planes is only feasible if both Carnarvon and Monkey Mia airports are upgraded. To upgrade existing airport facilities requires a significant financial and capital investment for which there is no current economic justification.

The importance of sustainable air services to Monkey Mia in respect of WA's broader tourism objectives, coupled with the fairly low passenger throughput on the route and airport security screening complexities, imply that continued regulation of the Coral Coast route in the future is essential in order to provide certainty to regional communities and ensure an adequate level of RPT services to both Carnarvon and Monkey Mia airports.

In summary, if the Coral Coast route were deregulated beyond 2016, the risk of market failure is significant; in particular on services to and from Monkey Mia. To ensure ongoing access to air services and minimise the potential threat of market failure in the future, regulation would be the most appropriate course of action for State Government. There are two options to do this:

- undertake an open competitive tender process; or
- exercise the current extension option in the deed with the incumbent RPT airline, Skippers Aviation, and extend the current deed arrangements for up to five years.

Key findings

- *From a tourism perspective, continued air services to the iconic holiday destination of Monkey Mia are important to the State. With a low volume of just over 25,000 and 4300 passengers per year respectively for Carnarvon and Monkey Mia, the Coral Coast route is marginal. Nevertheless, under the existing government regulatory model, RPT services on the route are provided without a subsidy and appear to meet both towns' industry, tourism and community needs.*
- *The current passenger volume is sufficient for one operator only and demand for Carnarvon flights is unlikely to grow in the near future.*
- *Monkey Mia air services appear to be sustainable only in conjunction with services to/from Carnarvon. If traffic does not grow or declines further in the future, the number of RPT services may be reduced. As such, as a stand-alone route, services connecting Perth with Monkey Mia are unlikely to be sustained on their own in an unregulated environment and there is a significant risk in potential market failure that could result in no air services being provided to Monkey Mia.*
- *The RPT services on the Coral Coast route are currently not subject to security screening due to the use of small aircraft (under 20,000 kg). This significantly reduces the total airfare for consumers. Larger planes (over 20,000 kg) will only be able to land at Carnarvon and Monkey Mia after both airports are upgraded to accommodate for security screening operations. These works require substantial capital investment for which there is no current economic justification.*
- *Where possible, airlines operating on this route should have a GDS and easy passenger links to other airlines and flights operating elsewhere in Australia and internationally.*

Recommendation:

Regulate the Perth-Monkey Mia-Carnarvon air route beyond February 2016.

6.5. From Perth to the Northern Goldfields

Regional location

Stretching between 500 km and 900 km north-east of Perth and situated north of Kalgoorlie-Boulder, the Northern Goldfields region is rich in natural resources and has an abundant Australian outback history and Indigenous culture. It is also known for its variety of wildflowers and as the gateway to the Outback Way across Australia.

There are three regulated RPT air services in the Northern Goldfields and they have fairly similar characteristics in terms of traffic volume, market type, distance from Perth, schedules and airfares. Furthermore, each of the Northern Goldfields RPT routes has a stronger and a weaker airport in terms of passenger volumes. The RPT air services in the Northern Goldfields generally have been triangulated, connecting Perth with the towns:

- Wiluna and Leinster;
- Leonora and Laverton; and
- Meekatharra and Mt Magnet.

Demand profile

The economy of the Northern Goldfields region is underpinned almost in its entirety by the resources sector. Some of the mining companies include Saracen, Ramelius Resources and Rosslyn Hill. The mining industry has strong needs for regular and reliable air services in order to transport their FIFO staff to mine sites. Many mining operations require frequent flights each weekday, with a distinct peak between Tuesdays and Thursdays.

Some of the passenger demand from the resources sector is met by charter flights timed to meet specific mining industry needs. Other mining operators that need less regular transportation opt for the RPT air service rather than sign up for charter contracts. The RPT services also provide access to Perth

for the small local communities. Thus, both charter and RPT air services in the Northern Goldfields play a critical role in carrying personnel for the resources sector and in connecting remote communities, including residents and general business travellers with Perth.

An undesirable but common characteristic of all three RPT routes is that they are considered “thin” or marginal routes, due to very small passenger volumes that generate limited revenue. Additionally, passenger demand can be significantly greater on one leg of the route (compared to other legs), further increasing the marginal nature of the route.

Fixed costs, such as fuel and staff salaries, are incurred regardless of the number of passengers on the plane. From an airline’s viewpoint high load factors are essential for any route’s viability. The load factor across all Northern Goldfields routes in 2012-13 is poor and well below the desired level of at least 75 per cent. Furthermore, the volatility of the resources sector makes traffic levels on the Northern Goldfields routes unstable and difficult to predict.

Statistics collected by DoT over the past seven years show that the Northern Goldfields routes are volatile and there has been no growth in passenger movements (table 30). RPT passenger volumes even declined in 2011-12 compared to the previous year. The number of passenger movements across all three Northern Goldfields routes combined was approximately 31,600 in 2012-13. A breakdown of all passenger movements for each of the three Northern Goldfields airports is provided in table 31. Demand in the first half of 2013-14 suggests further declines compared to 2012-13. At the same time, mining companies have been pressing for more charter flights over the Northern Goldfields regulated RPT routes. There have been suggestions on several occasions that some RPT flights may soon become unviable if charter operations continue to expand.

Table 30: Northern Goldfields passenger movements

FINANCIAL YEAR	NORTHERN GOLDFIELDS PASSENGER MOVEMENTS
2006-07	29,120
2007-08	39,660
2008-09	40,685
2009-10	31,597
2010-11	36,520
2011-12	30,488
2012-13	31,649

Figure 11: Northern Goldfields passenger movements

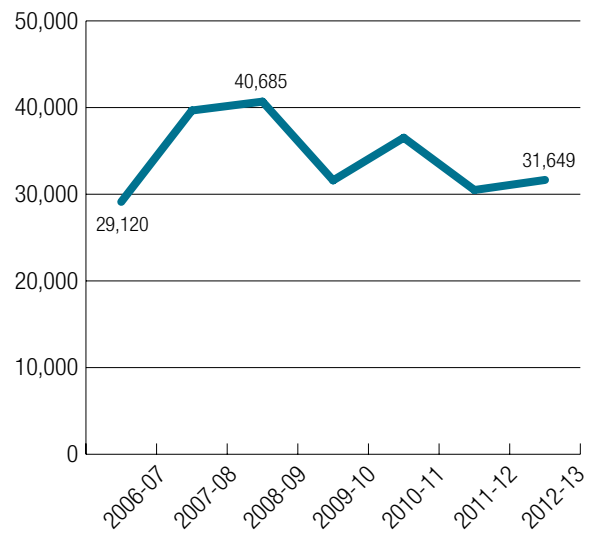


Table 31: Northern Goldfields passenger movements by airport

FINANCIAL YEAR	PASSENGER MOVEMENTS MEEKATHARRA	PASSENGER MOVEMENTS MT MAGNET	PASSENGER MOVEMENTS LAVERTON	PASSENGER MOVEMENTS LEONORA	PASSENGER MOVEMENTS LEINSTER	PASSENGER MOVEMENTS WILUNA
2006-07	6459	3980	3635	8826	3325	2895
2007-08	5263	4110	5633	15,892	4586	4176
2008-09	6265	4063	4284	18,352	2925	4796
2009-10	4598	2205	3791	16,897	1925	2181
2010-11	3424	3082	5304	20,982	1405	2323
2011-12	4738	2134	4767	14,766	1593	2490
2012-13	5822	1907	5294	15,144	923	2559



Wiluna-Leinster

The Wiluna-Leinster route is the most marginal route in the Northern Goldfields. Of the six airports in the region, Leinster had the lowest RPT traffic, with just over 900 passengers in 2012-13. This is because Leinster is a closed mining town operated exclusively by BHP Billiton Nickel West (BHP). The population of Leinster is comprised of mining staff and their families as well as medical practitioners, teachers and police officers, all of whom are associated with BHP's mining operations. As such, Leinster residents are able to access frequent BHP charter flights provided between Perth and Leinster. As a result, RPT flights to Leinster have been described by some stakeholders as obsolete as there is no need for air services for the general public. RPT services to Leinster can therefore be discontinued in the future.

BHP has had a longstanding commitment to State Government to support the RPT service on the Perth-Wiluna-Leinster route by purchasing 17 RPT seats per week. This commitment has played a vital role in maintaining the provision of three weekly RPT flights to and from the town of Wiluna.

However, if RPT services to Leinster cease to exist and with this BHP's commitment to purchase 17 RPT seats a week, there is a significant risk to the viability of RPT flights to Wiluna, which only had 2559 passengers in 2012-13. Direct RPT services between Perth and Wiluna are unlikely to be sustainable on their own.

Community and stakeholder consultation led to a trial of suspension of the RPT services to Leinster in late 2013 to test the viability of a standalone direct service between Perth and Wiluna. The trial commenced on 30 September 2013 and results have signalled that the Perth-Wiluna service is unviable on its own. Therefore, a further trial to 31 December 2014 has been undertaken to include services to and from Wiluna via Mt Magnet and Meekatharra using larger aircraft. Other options regarding the future of RPT services to Wiluna prior to and beyond 2016 are currently being considered by the State Government and include a possible change of flight configurations across other Northern Goldfields routes.



Source: Mount Magnet airport

Meekatharra-Mt Magnet

Apart from Leinster, demand for RPT services to Mt Magnet is the lowest in the region with annual passenger movements of only 1900 in 2012-13. This represents a 10 per cent decrease from the previous year. Over recent years demand for Mt Magnet RPT services has declined. This could be associated to a certain extent with recently increased charter operations on the Perth-Mt Magnet route.

Meekatharra had 5800 passenger movements in 2012-13, representing a 22 per cent increase on the previous year. Over the past few years, RPT passenger numbers to Meekatharra show some growth on the route. The recent decline in Mt Magnet passengers is compensated by the increase in Meekatharra air traffic and hence the entire Perth-Mt Magnet-Meekatharra route appears to be stable and viable.

Leonora-Laverton

Of the six RPT centres in the Northern Goldfields, Leonora historically has had the highest annual passenger volume, with more than 15,000 travellers in 2012-13. Nevertheless, this number is still relatively low compared to most other regulated routes in WA, ranging from approximately 25,000 (Carnarvon) to 58,000 (Albany) passengers annually. Furthermore, Leonora's passenger numbers dropped significantly in the second quarter of 2013-14 to approximately half the number of passengers in previous quarters. This is largely due to recently increased charter operations on the route. In addition, discussions with key stakeholders have indicated that in some instances, Leonora travellers opt to drive more than 200 km to Kalgoorlie, which is an unregulated airport that receives frequent RPT air services.

Passenger movements to Laverton have been relatively stable over the years with an annual volume of 5300 in 2012-13. However, there was a significant reduction in the second quarter of 2013-14 to approximately half the number of passengers in previous quarters. This decrease is in part due to the slowdown in mining activities in the region.



Frequency of services and operator

All three routes in the Northern Goldfields are currently serviced by a sole RPT operator – Skippers Aviation. The main aircraft used on two of the routes – Mt Magnet-Meekatharra and Leonora-Laverton – are turboprop Dash-8 and Embraer Brasilia with a capacity of 30, 36 and 50 seats depending on demand. Wiluna has been serviced primarily by 19-seat turboprop Metroliners, which are the smallest planes used across all regulated RPT routes and are generally not the aircraft preferred by the community. However, larger 30 and 36-seater planes currently land at Wiluna as part of the trial, including stops in Mt Magnet and Meekatharra.

Initially, when the regulatory framework was established in early 2011, the frequency of most RPT flights in the Northern Goldfields was above three services per week. Gradually, the decrease in demand has necessitated a reduction in the number of weekly services to most Northern Goldfields airports, which receive the minimum level of three weekly RPT services required under the airline's deed with the State Government (except Leonora which currently receives four weekly flights although it started with seven services per week). Furthermore, declines in demand have resulted in the use of smaller aircraft with a reduced capacity from 50 seats to 36 or 30 seats on some days. Nevertheless, it is important to recognise that all regulated Northern Goldfields routes have been sustainable without a State Government subsidy.

Airfares

The average one-way airfare of more than \$300 in 2012-13 across nearly all Northern Goldfields flights is relatively high. The exception to this is Leonora, which had a lower average airfare of \$250 in 2012-13. The State Government has little control over the number and extent of airfare concessions. However, generally no complaints have been made regarding the airfares. This is perhaps because the majority of business passengers using the Northern Goldfields RPT services do not pay their own fares.

The incumbent RPT airline, Skippers, is currently able to operate on the Northern Goldfields routes without the requirement for security screening of passengers and baggage. This is due to the airline's use of small aircraft below the OTS weight threshold of 20,000 kg. This benefits passengers who are not charged with a security screening tax, thus reducing the overall airfare. As such, it should be recognised that due to the lack of security screening charges and other fees, the total taxes on the Northern Goldfields routes of approximately \$50 each way represent a much lower portion of the airfare compared to that seen in other regional airports in WA. If Fokker 50 planes were to operate on any of the Northern Goldfields routes, however, they would be subject to security screening requirements. The Northern Goldfields airports currently do not have such facilities. To allow landing of such planes, the airports would need to make a significant investment in security screening equipment, for which currently there is no economic justification.

Table 32: Northern Goldfields average fare – by airport

FINANCIAL YEAR	AVERAGE AIRFARE (ONE WAY) LAVERTON	AVERAGE AIRFARE (ONE WAY) LEONORA	AVERAGE AIRFARE (ONE WAY) MEEKATHARRA	AVERAGE AIRFARE (ONE WAY) MT MAGNET	AVERAGE AIRFARE (ONE WAY) LEINSTER	AVERAGE AIRFARE (ONE WAY) WILUNA
2011-12	\$319	\$210	\$311	\$264	\$316	\$303
2012-13	\$366	\$250	\$363	\$305	\$338	\$345

*Average airfares are based on data provided by airline to DoT.

Users of RPT services

Data from passenger surveys with a sample size of approximately 260 conducted over two weeks in July-August 2013 on the Northern Goldfields air routes show that nearly 68 per cent of surveyed travellers are Perth residents, almost 9 per cent are Northern Goldfields residents and about 23 per cent of travellers are from somewhere else. Interestingly, a substantial portion of non-Perth residents (64.4 per cent) are from other states in Australia and a further 33.4 per cent reside in other regions throughout Western Australia.

Table 33: Breakdown of residents – Northern Goldfields

NORTHERN GOLDFIELDS TRAVEL		NON PERTH RESIDENTS	
Perth residents	67.8%	Interstate Australia	64.4%
Northern Goldfields Residents	8.8%	International	2.2%
Non-Perth residents	23.4%	Country WA	33.4%

Survey results for the purpose of air travel are summarised in table 34 for all Northern Goldfields routes combined, as the findings for the three individual routes are very similar to each other. Data show that the vast majority (88.2 per cent) of surveyed passengers use the Northern Goldfields RPT air services for business purposes, with more than half of those (55.7 per cent) being from the resources sector. This is a reasonably expected outcome given the strong mining aspect of the Northern Goldfields region.

Table 34: Travel purpose – Northern Goldfields

PURPOSE OF AIR TRAVEL – ALL NORTHERN GOLDFIELDS ROUTES	OVERALL RESPONSE RATE %
Work – Resource industry	55.7
Work – Government	15.5
Work – Other	17.0
Total work	88.2
Holiday / leisure	1.0
Medical reasons	5.7
Visiting friends and relatives	5.2
Total	100%

PURPOSE OF AIR TRAVEL – ALL NORTHERN GOLDFIELDS ROUTES	NORTHERN GOLDFIELDS RESIDENTS %	PERTH RESIDENTS %	OTHER RESIDENTS %
Work – Resource industry	9.5	69.9	35.0
Work – Government	28.6	9.0	30.0
Work – Other	9.5	16.5	22.5
Total work	47.6	95.4	87.5
Holiday / leisure	4.8	0	2.5
Medical reasons	42.9	0.8	2.5
Visiting friends and relatives	4.8	3.8	7.5
Total	100%	100%	100%

Source: passenger surveys conducted over two weeks in July-August 2013.

Consideration must also be given to the significant number (42.9 per cent) of surveyed Northern Goldfields residents who travel to Perth for medical purposes. This demonstrates that air services provide access for residents to essential welfare facilities in Perth that are vital for the wellbeing and living standards of regional communities.

Satisfaction ratings identified through the passenger surveys appear very similar across all three routes. Table 35 summarises these ratings for all Northern Goldfields routes. Airfares are deemed unacceptable by only about 21 per cent of surveyed passengers, while a significant portion (43 per cent) of people broadly accept the current airfares. A further 20 per cent rate airfares as good.

A large number (30 per cent) of survey responders find the schedule acceptable and another 30 per cent believe that the convenience of the current flight times is good. Around 17 per cent indicate that the flight schedule is not convenient. The quality of flights was evaluated very positively, with the majority of survey respondents (82 per cent) rating the RPT services as good to excellent. Only around 7 per cent of respondents indicated the quality of services was unacceptable. The survey was conducted prior to the trial introduction of the Meekatharra/Mt Magnet/Wiluna route.

Figure 12: Purpose of air travel – Northern Goldfields

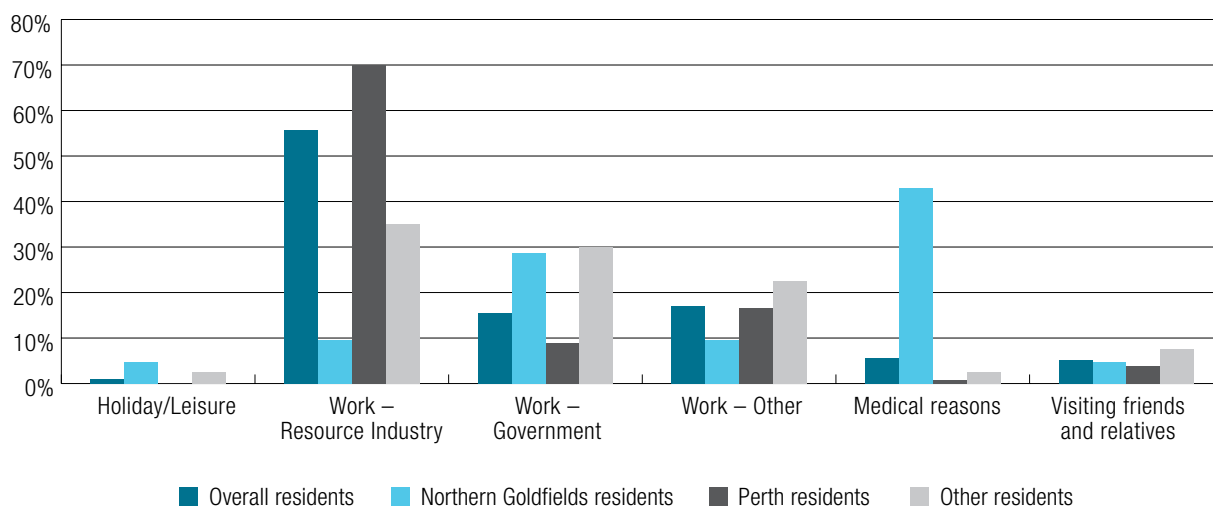


Table 35: Service satisfaction ratings – Northern Goldfields

CATEGORY (ALL NORTHERN GOLDFIELDS ROUTES)	EXCELLENT	VERY GOOD	GOOD	ACCEPTABLE	POOR	VERY POOR	EXTREMELY POOR
Air fare	5.7%	10.3%	19.6%	43.3%	13.9%	2.6%	4.6%
Convenience of flight times	4.1%	18.1%	30.1%	30.1%	11.4%	2.6%	3.6%
Quality of service	21.6%	34.0%	26.8%	10.3%	5.7%	1.5%	0.0%

Source: passenger surveys conducted by Skippers over two weeks in July-August 2013.



Source: Mount Magnet airport

Future regulatory options

Many stakeholders have expressed a concern that if any of the Northern Goldfields routes is deregulated beyond 2016, the regional communities are very likely to lose their RPT services. The potential reduction in the number of flights or an absence of flights altogether would be detrimental to the communities, who would then have no access to any flights at all since the general public is not allowed to use closed charter flights under Commonwealth legislation administered by CASA.

In the context of charter operations, it is important to indicate that charter airlines and their mining clients have complained about having to comply with special charter conditions placed by State Government on charter aircraft licences. These special charter conditions (refer to part 7, charter policy for more details) require the purchase of a certain number of seats on the RPT flights in order to reduce the impact of charters on the viability of the RPT services. Comments from charter and mining stakeholders have suggested that although the notion for supporting

the RPT services is broadly acceptable, such support should be minimal and applied fairly and transparently, rather than on a case-by-case basis. Part 7 charter policy provides more details about charter operations.

Another concern raised by stakeholders on some occasions is the On-Time Performance (OTP) on some of the Northern Goldfields routes, particularly for Leonora and Meekatharra. The OTP to these airports has been seen as inadequate for some time and well below the 80 per cent benchmark established under the airline deed. For instance, the poor OTP has been indicated by stakeholders as a key reason for mining companies that previously used the RPT services to switch to charter operations. However, it is essential to recognise that the OTP across all Northern Goldfields routes, including Leonora and Meekatharra, has significantly improved since early 2013. The OTP of all Northern Goldfields routes has increased above 80 per cent since August 2013 through Skippers' initiatives such as schedule changes and the introduction of the Perth Airport slot management system.

Some concerns from Northern Goldfields stakeholders have been expressed in relation to the lack of seat availability on certain RPT flights due to block bookings by mining companies. This appears to be an issue on Tuesdays and Thursdays, the peak days of the week due to typical mining rosters. However, these concerns have been diminishing with the slowdown of the resource industry, the falling price of gold and the generally reduced demand for RPT services in the region. In addition, it has been highlighted that bookings of RPT seats is essential at least two to three weeks in advance, as is the case with many flights around the world.

A key question for the future of aviation services in the Northern Goldfields is the possible permanent removal of RPT flights to Leinster. As mentioned earlier, Leinster is a closed mining town that exists solely for the established mining operations of BHP Billiton and therefore has no need for community air services. The permanent removal of RPT service to Leinster means that BHP Billiton's longstanding commitment for financial support of the RPT air services would cease. This would have a significant impact on the viability of Wiluna's RPT services because under the current economic conditions Wiluna is unlikely to sustain on its own. Various trials for RPT services between Perth and Wiluna with or without a triangulation of other regional airports in the region are being undertaken by the State Government in order to determine how best to regulate RPT services into Wiluna in the future.

There is limited interest from airlines in providing RPT services on the Northern Goldfields routes beyond 2016 due to the following reasons:

- With a relatively low passenger volume, the Northern Goldfields routes are generally deemed marginal and barely sufficient for one operator, let alone for more airlines.
- Larger airlines are generally focused on higher volume routes rather than operating smaller aircraft that are appropriate to meet demand on Northern Goldfields routes.
- To qualify as an RPT airline, charter operators must obtain an RPT licence from CASA. The process of obtaining such licences generally involves costs in the order of \$60,000 to \$100,000 and may take many months.

There is a considerable risk of market failure if any Northern Goldfields routes is deregulated beyond 2016, given the low and declining passenger volumes. As such, were the routes to be deregulated it would be unlikely that an RPT airline could be relied upon to provide a service without the safety net of a regulated market. Furthermore, even maintaining a regulated market will not guarantee the continuation of RPT air services given the low passenger traffic. Future charter policy settings will have a significant impact on the future of RPT services.

To ensure access to air services and minimise the potential threat of market failure in the future, regulation would be the most appropriate course of action for the State Government beyond 2016.



Leonora airport

The future of air routes in the Northern Goldfields may be subject to various regulatory options including, but not limited to, the following:

- undertake an open competitive tender process; and/or
- exercise the current extension option in the deed with the incumbent RPT airline, Skippers Aviation, and extend the current deed arrangements for up to five years; and/or
- establish new route configurations, direct or triangulated, between Perth (or another major RPT airport, such as Kalgoorlie or Geraldton) and any of the Northern Goldfields airports except Leinster.

Key findings

- *All three RPT routes in the Northern Goldfields have similar characteristics and are currently marginal. The passenger volume on each route is very low and almost insufficient for one operator, let alone for more operators. Recent declines in demand have necessitated a reduction in the number of weekly services to the minimum level stipulated in the airline's deed and, in some cases, the use of smaller aircraft. Few local residents use the Northern Goldfields RPT services. However, RPT flights are deemed a necessity for the regional communities and essential for their welfare.*
- *The principal industry in the Northern Goldfields region is mining. The vast majority of passengers use the RPT services for business purposes and most of these are from the resources sector. While some mining companies in the Northern Goldfields use the RPT services, the resources industry generally prefers charters. The volume of charter traffic significantly exceeds the volume of RPT traffic in the Northern Goldfields. This poses a significant risk to the existing RPT services.*
- *The State Government must regulate charter operations to ensure charters do not undermine the RPT services' viability in the Northern Goldfields. In some cases, therefore, special charter conditions are placed on charter licences to support the RPT service. The charter and mining industry's position is that such support of the RPT services should be minimal and applied fairly and transparently.*

- *None of the RPT flights on the Northern Goldfields is currently subject to security screening due to the small size of aircraft (under 20,000 kg). This significantly reduces the total airfare for consumers. Security screening for RPT passengers otherwise involves additional airport taxes and fees. Larger planes, such as jets, will only be able to land at most regulated Northern Goldfields airports after they are upgraded to accommodate security screening operations. These upgrade works require substantial capital investment for which there is no current economic justification.*
- *Leinster is a closed town and has no need for RPT services; thus, Leinster can be discontinued as an RPT airport in the future. Residents in Leinster are associated with mining work and can access charters. A trial for direct services between Perth and Wiluna without a triangulation leg with Leinster has revealed that Wiluna is unlikely to be able to sustain services on its own. Various options regarding how best to regulate RPT services into Wiluna in the future will be considered by the State Government.*
- *There is a considerable risk of market failure (that is, inadequate or no air services at all) if any of the Northern Goldfields routes is deregulated beyond 2016, given the low and declining passenger volumes. In such an environment, were the routes to be deregulated, it would be unlikely that an RPT airline could be relied upon to provide a service without the safety net of a regulated market.*

Recommendation:

- Regulate air routes in the Northern Goldfields beyond February 2016 by either maintaining the existing route connections or establishing new route configurations, direct or triangulated, between Perth and the following airports: Laverton, Leonora, Meekatharra, Mt Magnet and Wiluna.
- Discontinue Leinster as an RPT airport beyond February 2016 or earlier.



6.6. From Perth to Derby/Curtin (Kimberley Region)

Regional location

The town of Derby is nearly 1800 km north of Perth. This is a vast distance to drive but a flight takes only 2 hours and 45 minutes. Derby has a population of some 4800 residents.²⁴

Just a short distance south of Derby is the Curtin Immigration Detention Centre, managed by the detention service provider Serco on behalf of the Department of Immigration and Citizenship. The RPT airport is located at the nearby Curtin Royal Australian Air Force (RAAF) base, about 30 minutes' drive from the town centre of Derby. The airport is jointly used as an RAAF and civil airport and can accommodate a variety of large jet aircraft.

Demand profile

Derby and its surrounding mainland area are underpinned by the mining of diamonds, gas, and oil and pastoral industries from which the local and wider communities benefit.

Derby is also the gateway to Cockatoo and Koolan Islands within the nearby Buccaneer Archipelago, which are known for their active iron ore mining operations. Once flown from Perth to Derby, numerous FIFO workers transfer onto charter services to these two islands. The three major mining companies underwriting the RPT service on the Perth-Derby route are Mt Gibson Iron, Pluton Resources and Kimberley Diamond Corporation. Thus, RPT air services between Perth and Derby are essential for the resources sector as well as the regional community.

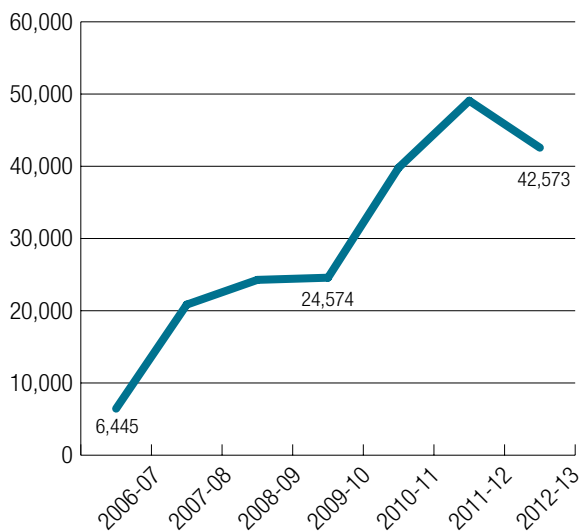
RPT air services have been provided between Perth and Derby (Curtin) since November 2006 and these continue to play a major economic and social role in the Kimberley region. Since 2006, the Perth-Derby air route has grown considerably, reaching its peak of 49,075 passenger movements in 2011-12 (table 36). However, the following year saw a decrease of 13.2 per cent when passenger movements at Derby fell to 42,573 in 2012-13.

²⁴ Australian Bureau of Statistics [ABS], 2011. *Census quick stats*. Retrieved from <http://www.abs.gov.au/websitedbs/censushome.nsf/home/quickstats?opendocument&navpos=220>

Table 36: Derby passenger movements

FINANCIAL YEAR	DERBY PASSENGER MOVEMENTS
2006-07	6,445
2007-08	20,847
2008-09	24,274
2009-10	24,574
2010-11	39,806
2011-12	49,075
2012-13	42,573

Figure 13: Derby passenger movements



In terms of passenger volumes, the Perth-Derby route can be compared to other regional routes in WA such as Perth-Esperance and Perth-Albany, both of which have a substantial number of annual passenger movements; approximately 45,000 and 58,000 respectively. Unlike Esperance and Albany, however, a key distinction of the Perth-Derby route is that it is significantly underwritten by the resources sector.

Frequency of services and operator

The Perth-Derby route is serviced by a sole RPT operator — Virgin Australia Regional Airlines (VARA, previously known as Skywest Airlines). VARA was awarded exclusive licensing rights to operate on the route after being selected as the most suitable applicant in an emergency expression of interest process undertaken by the State Government in February 2012, following the collapse of its RPT predecessor Air Australia. The quick re-regulation of the Perth-Derby route at that time ensured continued air services for

the Derby community and resource industry with minimum service disruptions. The State Government has committed to maintain VARA's exclusive licensing rights for the provision of RPT air services on the Perth-Derby route until 27 February 2016. This arrangement aligns with the timeframe of all other regulated routes in WA.

VARA currently provides five return RPT services per week on each weekday. The primary jet aircraft used on the route are Airbus 320 with a capacity of 168 seats and Fokker 100 with a capacity of 100 seats. This level of weekly flights has been seen as adequate by community and industry stakeholders using the RPT service.

Airfares

Based on cost per kilometre this airfare is relatively low and approximates the airfares offered on the Perth-Broome route.

Users of RPT services

Results from on-board passenger surveys with a sample size of approximately 200 conducted on the Perth-Derby route over two weeks in July-August 2013 and one week in October 2013 reveal that nearly 60 per cent of surveyed travellers are Perth residents, 18 per cent are Derby residents and 22 per cent are from somewhere else. It is interesting to note that a large portion (62 per cent) of the non-Perth residents comes from other states in Australia and the remainder (38 per cent) reside in other regions throughout Western Australia.

Table 37: Breakdown of residents – Derby

DERBY TRAVEL		NON PERTH RESIDENTS	
Perth residents	59.2%	Interstate Australia	62%
Derby residents	18.3%	International	0%
Non-Perth residents	22.5%	Country WA	38%

Survey responses also show (table 38 and figure 14) that around 75 per cent of all surveyed RPT passengers travel for business purposes. Of these, approximately half are from the resource industry. This is not surprising given the range and volume of mining activities in the mainland region and nearby islands.

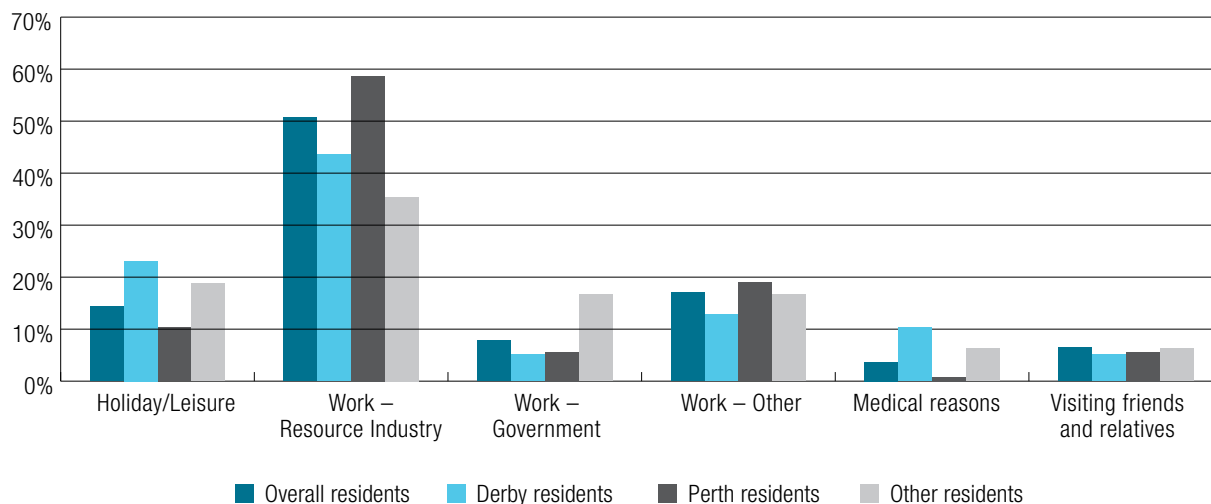
Table 38: Travel purpose – Derby

PURPOSE OF AIR TRAVEL	OVERALL RESPONSE RATE %
Work – Resource industry	50.7
Work – Government	7.8
Work – Other	17.1
Total work	75.6
Holiday / leisure	14.3
Medical reasons	3.7
Visiting friends and relatives	6.5
Total	100%

PURPOSE OF AIR TRAVEL	DERBY RESIDENTS %	PERTH RESIDENTS %	OTHER RESIDENTS %
Work – Resource industry	43.6	58.7	35.4
Work – Government	5.1	5.6	16.7
Work – Other	12.8	19.0	16.7
Total work	61.5	83.3	68.8
Holiday / leisure	23.1	10.3	18.8
Medical reasons	10.3	0.8	6.3
Visiting friends and relatives	5.1	5.6	6.3
Total	100%	100%	100%

Source: passenger surveys conducted over two weeks in July-August 2013 and one week in October 2013.

Figure 14: Travel purpose – Derby



Of all surveyed passengers, 14.3 per cent use the RPT flights for holiday or leisure purposes and only 6.5 per cent to visit friends and relatives. A reasonably high proportion of surveyed passengers residing in Derby (10.3 per cent) flies to Perth for medical reasons. Some of the RPT traffic is also comprised of people associated with the activities at the Detention Centre, although their survey responses were not captured as a distinct travel category and are part of the work category.

Table 39 shows the survey respondents' ratings of the current RPT services on the Perth-Derby route. The fare appears to be broadly acceptable to the community and stakeholders. Only 12 per cent of surveyed passengers rate airfares poor to extremely poor. Similarly, most surveyed travellers (approximately 75 per cent) have indicated their satisfaction with the flight schedule and the vast majority (nearly 96 per cent) are happy with the quality of service on Derby flights.

Table 39: Service satisfaction ratings – Derby

CATEGORY	EXCELLENT	VERY GOOD	GOOD	ACCEPTABLE	POOR	VERY POOR	EXTREMELY POOR
Air fare	17.8%	14.4%	22.3%	33.2%	7.4%	2.0%	3.0%
Convenience of flight times	15.9%	19.8%	21.7%	27.1%	10.6%	2.9%	1.9%
Quality of service	29.4%	33.6%	23.7%	9.5%	2.4%	1.4%	0.0%

Source: passenger surveys conducted by VARA over two weeks in July-August 2013.

Future regulatory options

Stakeholders' views regarding the future regulatory options for the Perth-Derby route have been relatively consistent during initial consultations. The general feedback received from community representatives and the resources industry indicates that the regulation of the Perth-Derby air route over recent years has been seen as a positive outcome and that continued regulation is preferred to ensure continued air services. In a potentially unregulated environment, possible reduction in the number of flights or the absence of flights altogether would be detrimental to the Derby community, whose successful efforts in establishing a direct RPT service for the first time in 2006 are recognised and acknowledged.

Some may argue that the Perth-Derby route could be deregulated beyond 2016 and attract other air operators, leading to potential price competition. This view may be based on the annual number of passenger movements of more than 42,000 which is relatively high. Furthermore, it can be compared to the 45,000 passengers on the Perth-Esperance route, which has been recommended for deregulation beyond 2016. Nevertheless, a route assessment based purely on the annual number of passengers is inadequate, and other route factors should be taken into account. It is important to consider the following:

- The route is currently underwritten by three major mining companies. As such, a potential reduction of mining activity or closure of mine sites in the future will pose a significant threat to the viability of RPT services.
- Current RPT users on the Perth-Derby route appear to be satisfied with the service. No plea for another airline or multiple RPT service providers has been made by the community or the resources sector.

- The Derby community has previously experienced periods where there has been no direct air service between Derby and Perth.
- There is a certain level of real and perceived price competition between the RPT services on the Perth-Broome route running in parallel to those on the Perth-Derby route. Broome is a major population centre located approximately 220 km west of Derby. Direct RPT air services between Perth and Broome are provided by two airlines operating in competition on the Perth-Broome route: Virgin Australia and Qantas. An alternative transport option for the Derby community and industry is to drive from Derby to Broome and then fly to Perth. This option has longer travel duration than a direct Perth-Derby service.

Although deregulation of the Perth-Derby route beyond 2016 may result in the presence of two or more air operators, this can also lead to a deteriorated flight schedule for the community. While the weekly number of RPT services may remain the same, unlike the current schedule with a flight on each weekday, it is possible that future services may be provided multiple times on certain days but leave the community without services on other days of the week. This may occur due to the potential division of the resources sector market across rival airlines.

The Perth-Derby route is generally deemed attractive to airlines because it is the longest direct route of all regulated RPT routes in WA and it has a large corporate market. As such, while there is limited interest in the route from other airlines at present, there may be an argument for route deregulation in the more distant future. Other airlines may wish to enter the market if

new opportunities arise from prospective mining industry developments in the region. Thus some stakeholders have expressed a view that prohibiting long-term market entry of other airlines on the Perth-Derby route would be unfair and inappropriate, especially if positive expectations about future economic growth in the region rise. Concerns have been expressed that in such cases of economic development, the incumbent RPT operator, VARA, would have an advantage since strict route regulation would prevent other airlines from providing either RPT or charter services to Derby.

In this context, a more flexible regulatory approach in the future could enable the aviation industry to adjust to substantial changes in the region's economic circumstances. Such an approach would allow other airlines to enter the market, should demand on the route increase with expanded mining developments in the region.

If other airlines express an interest to operate on the Perth-Derby route in the future due to changes in the region's economic environment, the State Government will consider such requests and may, at its discretion, permit other airlines to operate on the route if the risk is low with appropriate notice to the existing RPT operator. The regulatory approach for the Perth-Derby route would then become similar to the partially deregulated Perth-Learmonth route under the current regulatory framework. This partial deregulation has been relatively successful in that the Perth-Learmonth route has seen regular services by two operators and intense price competition.

Partial deregulation of the Perth-Derby route in the future would mean that the State Government would continue to have control over key community considerations, including frequency of RPT services and on-time performance, while allowing airfares to be determined by competing airlines.

Key findings

- *The Perth-Derby route is generally attractive to airlines due to the route's length, its relatively high volume of approximately 42,000 passenger movements per year and large corporate market share.*
- *Overall, users are satisfied with the current RPT services and have not indicated a preference for deregulation. However, imposing long-term barriers to entry on the Perth-Derby route would inappropriately inhibit prospective new markets for other airlines, particularly when significant changes in the region's economy might occur. The future regulatory approach should be flexible to allow entry by other airlines when circumstances change and the route demand grows.*
- *Partial deregulation of the Perth-Derby route in the longer-term, if deemed necessary, would provide more choice for the community and local industry, potentially lead to lower airfares and enable the realisation of new market opportunities for airlines while fostering route growth.*

Recommendation:

Flexibly regulate the Perth-Derby (Curtin) air route beyond February 2016 by allowing the potential entry of other airlines should there be a significant change in the region's economic circumstances.

PART 7

CHARTER POLICY

7.1. Definition of charter services

Air transport operations in Australia are subject to several pieces of legislation including the *Civil Aviation Act 1988* and the *Aviation Transport Security Act 2004* (ATSA). The ATSA refers to open and closed charter operations. 'Open charter' refers to services offered to the public who pay a fee, while 'closed charter' operations are generally non-public, non-fee paying.

More specifically, a closed charter service is defined by the Commonwealth Government Civil Aviation Safety Authority (CASA) as "the carriage, in accordance with fixed schedules to and from fixed terminals, of cargo or passengers and cargo in circumstances in which the accommodation in the aircraft is not available for use by persons generally".²⁵ In other words, the general public is not allowed to travel on closed charters.

Fly-in fly-out (FIFO) operations are an example of closed charter operations.

At present, under Commonwealth legislation administered by the Office of Transport Security (OTS), while security screening of passengers and baggage on RPT flights is required for all aircraft above 20,000 kg, closed charters are not subject to security screening regulations regardless of the size of aircraft. Any operation that takes a fee-paying passenger would be classed as an RPT or open-charter operation and be subject to the relevant screening requirements (that is, the service would no longer be closed charter). For example, if Fokker 100 jets currently operating closed charter operations were to operate RPT or open-charter services (so that the airline can sell seats to the general public), passengers and baggage will be required to undergo a security screening process.

²⁵ Civil Aviation Safety Authority. [CASA], 2009. *Regulatory Policy – CEO-PN007-2009 Classification and Regulation of 'Closed-Charter' Operations under CAR 206(1)(b)(ii) CEO-PN007-2009*. Retrieved February 1, 2014 from <http://www.casa.gov.au/corporat/policy/notices/CEO-PN007-2009.pdf>



CASA recently released a notice of proposed rule-making (NPRM0903OS) which suggests the removal of the distinction between RPT and charter in the future from the viewpoint of aircraft safety compliance. CASA proposes to replace the current charter and RPT terminology with the term 'air transport operation', which will mean air services for the transportation of passengers and cargo that are publicly available, and/or are conducted for hire or reward. CASA's proposed legislation is expected to be approved by the Governor General and implemented in 2014, although exact implementation timeframes are unknown at the time of writing this document. Despite the proposed amalgamation of RPT and charter operations, it should be noted that CASA's legislative changes will not impact on current requirements and processes for security screening of baggage and passengers. This means that existing security screening regulations and processes under Commonwealth legislation administered by OTS for both RPT and charter flights will remain the same.

The Charter Policy discussed in this section refers to **closed** charter operations only.

7.2. Demand for closed charters

Compared to most other states and territories in the country, where demand for air services is typically for tourism and leisure purposes, in Western Australia the greatest demand is for business purposes. The State's economy is largely underpinned by the resources sector and its mining operations for iron ore, gold, petroleum products and various minerals, contributing significantly to Australia's commodity exports. The resources industry predominantly uses charter air services to transport its numerous FIFO personnel, although significant block bookings of seats on the RPT flights are also common.

Generally, a closed charter provides more flexibility for users and is more cost efficient to run than an RPT service. The regulatory requirements for providing RPT services are more onerous than those for charter services, as they are subject to meeting higher standards for the implementation of safety management plans, organisational structures and policies and procedures.



Geraldton airport

It is important to recognise that mining companies need the flexibility to negotiate flight times for their FIFO workforce that meet company and staff needs. The flight times preferred by the general public can be very different from those times required by a mining company. As such, many mining operators are unable to use existing RPT air services as the flight departure and arrival times are unsuitable.

In the Northern Goldfields and Pilbara regions numerous mining companies transport their staff on closed charter flights to their mining operational sites. In some cases charter operators fly directly to private mine site airstrips. However, many charter operators fly their mining clients to regional centres over RPT routes, to an RPT airport along with existing RPT services. This sometimes poses risks to the sustainability of the RPT services particularly on thin air routes in the Northern Goldfields, where passenger volumes on the RPT air service are low. For example, a total of six weekly charters with plane capacity of approximately 100 seats each fly between Perth and Leonora, while only four RPT services used by approximately 300 passengers per week operate on the same route.



7.3. Current charter policy objective

The State Government's longstanding policy objective has been to ensure that charter air services do not detract from the viability of RPT air services in Western Australia as a matter of public interest, while also seeking to accommodate the needs of the mining companies.

7.4. Charter policy application and charter licensing conditions

In line with the current charter policy, aircraft licensees cannot operate more than one return charter service per calendar week on behalf of a client (mostly mining companies) on any RPT route without approval from the Minister for Transport or DoT. This standard charter condition is placed on all aircraft licences issued annually to safeguard the viability of RPT services. The intention of this policy is to prevent reductions in passenger loads on RPT routes (and thereby

affecting the viability of the airline operating the RPT route) while allowing ad hoc charter for business, tourism or emergency purposes that have little effect on an ongoing RPT service. This practice appears to be generally well understood by charter operators, RPT service providers and the resources industry.

Various **operational** charter conditions, such as those relating to route and frequency, can also be placed on the aircraft licence of charter operators to control where and how often they may fly within the State. When an operator would like to provide more than one charter air service over an RPT route, the operator must submit an application to DoT. By comparison, in New South Wales, although licences for charters were abolished several years ago, the Government continues to regulate charters by restricting charter operations from flying the same route any more than four times over any 28-day period unless specifically authorised.²⁶

²⁶ Transport for NSW, 2012. *NSW air licence application criteria and form*. Retrieved from <http://www.transport.nsw.gov.au/content/nsw-air-licence-application-criteria-and-form>

Historically, the number of charters in WA was relatively low and few applications for multiple charter services over an RPT route were submitted by charter operators to DoT. These charter applications have been traditionally assessed on a case-by-case basis. As part of the application, a business case was usually required outlining the rationale for the additional charter services, indicating the impact of such charters on the existing RPT service, and some evidence of the charter support from key local stakeholders.

In 2012-13 however, DoT received a number of charter applications, all for multiple weekly charter operations in the Northern Goldfields region. In some cases charter applications were approved by the Minister for Transport or DoT with a special licensing condition requiring the charter operator (or effectively their mining client) to purchase a certain number of seats on the RPT service from the RPT airline. Generally, the number of RPT seats to be purchased was calculated based on approximately 5 per cent of the proposed charter seats. As multiple charter operations over thin regulated RPT routes (such as in the Northern Goldfields), are likely to have a negative impact on the RPT service, this special condition on the licence aims to provide some support to the existing RPT service, thereby maintaining its viability without State Government subsidy.

The current charter policy could be seen as successful, insofar as there has been no requirement for public subsidy of any of the RPT air routes in the Northern Goldfields connecting Perth with Meekatharra, Mt Magnet, Laverton, Leonora, Wiluna and Leinster despite their marginal nature. However, the increased number of charters has already caused a reduction of RPT services on at least one of the regulated routes and if charters continue to increase they may have a detrimental impact on other RPT routes. Furthermore, RPT services on nearly all routes (except Leonora) already operate at their minimum level required under the airline's deed.

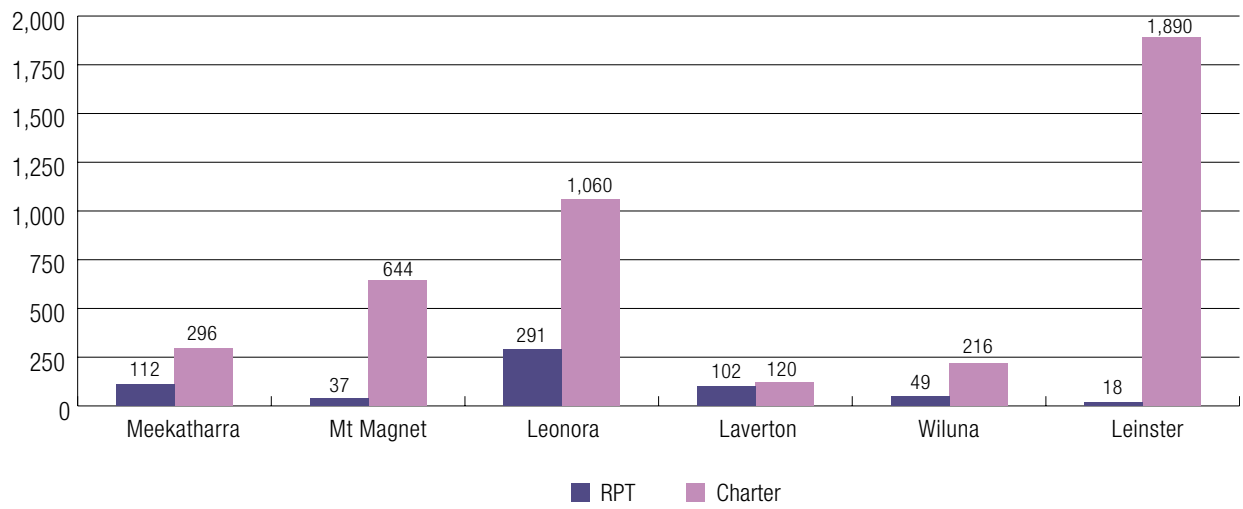
7.5. Charter regulatory considerations and challenges

The current approach to charter regulation has sparked mixed feedback from the RPT and charter operators, the resources industry and the regional communities. Preliminary discussions with stakeholders reveal that although the allowance of one return charter per week is generally accepted as reasonable, there are some key issues of concern relating to the regulation of charters. These include:

→ **High volume of charter traffic over regulated RPT routes** – despite fluctuation in the resources industry over the past years, numerous charter flights in regional WA continue to be provided in order to meet demand for FIFO operations every day. Mining operators want greater control over transport arrangements for their employees, which leads to additional pressure for increased charter flights.

Of particular concern is the viability of thin RPT air routes in the Northern Goldfields region, where not only is the frequency of charter services higher than the RPT service flying to the same regional town, but charter services are sometimes provided in larger aircraft than the RPT service. The charter traffic volume thus significantly exceeds the number of travellers using the RPT service. This is clearly evident in figure 15. The high volume of charter traffic over RPT air routes can be detrimental to the viability of RPT air services available to communities. In such cases, if charters into the Northern Goldfields continue to be approved, the RPT services are likely to be reduced below the absolute minimum level required under existing deeds between the State Government and RPT airlines, or cease altogether leaving some towns without a service.

Figure 15: Number of RPT passengers versus charter seats per week in the Northern Goldfields (2012-13)



Mount Magnet airport

→ **Assessment of charter applications and lack of consistency and transparency** –

charter requests have been historically assessed on a case-by-case basis rather than by adopting a uniform approach across all charters operating in the State. In most situations in the past the case-by-case assessment resulted in approved charters without any special conditions, while more recently a **special** charter condition requiring the purchase of RPT seats was placed on the aircraft licence of some charter operators. Thus, some stakeholders have complained that the individual assessment of charter applications has not been applied transparently, equitably and consistently. Therefore, the State Government is aiming to adopt a consistent and transparent approach to charter regulation that ensures a more equitable charter assessment practice. In order to take into account the possible effect of the proposed charter on the existing RPT service, as part of the assessment process of charter applications, DoT consults with the RPT airline and the community, represented through the appropriate local government. This is seen as unfair by some stakeholders who believe that the incumbent RPT airline can gain a commercial advantage through this consultation process and provision of information about the proposed operations of charter airlines.

→ **Extra cost impost on the industry** –

key stakeholders have highlighted that in the current economic conditions the requirement to purchase a certain number of RPT seats on a weekly basis is an unreasonable financial burden on charter operators, who in turn pass the cost of RPT seats on to the mining company using the charter service. This *special* charter condition placed on some aircraft licences is particularly unwelcome by the resources industry when the purchased RPT seats cannot actually be used by the mining companies and their FIFO staff. The main reasons for the unused RPT seats are unsuitable RPT timetables, low reliability of RPT services or the significant distance between the RPT airport and the actual mining site, requiring a long drive by car to pick up the employee or contractor from the RPT airport.

In addition, some charter airlines have expressed a view that the use of charter services arising from new mining operations would not have any adverse impact on the established RPT service as they would not reduce the existing passenger load using the RPT service. Thus, it could be argued that in such cases, there is no need for a *special* charter condition. On the other hand however, consistency, fairness and transparency are regarded essential in the assessment of charter applications.



Thus, in the case of new mining operations, the placement of a *special* charter condition is regarded as appropriate and supports the objectives of the State for maintaining a sustainable level of RPT services for regional communities. Furthermore, while a new mine operation may not reduce the number of passengers on RPT services, it can be expected that over time there will be mine closures leading to reduced numbers of RPT passengers. If those RPT passengers are not replaced then over time the viability of RPT services will decline.

By contrast, other stakeholders and communities have expressed a view that without such a *special* charter condition requiring the purchase of RPT seats, the increased charter traffic will undermine the viability of RPT services on marginal routes in the Northern Goldfields. Thus, the requirement to purchase seats on the RPT service is highly desirable to ensure the continuation of RPT services for regional communities in the future. Moreover, requests for approval of future charter services in addition to the already high volume of charter operations over thin RPT routes should only be considered if RPT support is ensured.

A more specific issue relating to Leinster is that some stakeholders believe that the *special* condition is inappropriate and should not be applicable to charters flying to Leinster as it is a closed mining town. It is claimed that there is no real regional community in Leinster and therefore there is no need for RPT services, making the *special* condition for charter operators irrelevant and obsolete.

→ **On-time performance (OTP)** – OTP is generally considered adequate in the aviation industry if it is above 80 per cent. Statistical data collected from airlines by DoT show that OTP on most protected RPT routes in WA is around 80 to 90 per cent. However, there are some concerns by mining companies about the reliability of RPT flights in the Northern Goldfields. Poor OTP, resulting in undesired delays and even flight cancellations, raises customer dissatisfaction and criticism of the service. The lack of reliability of RPT services on certain routes in the region has been a key factor in mining operators using more charter flights, increasing further the number of charter air operations in the State.

Many mining companies in WA have strict rosters for their FIFO personnel. A timely air service is an important part of their working conditions and ensures adequate staff handovers. Although the OTP on some RPT routes in the Northern Goldfields has been below the benchmark of 80 per cent for some time, recent OTP data show significant improvement. For example, the OTP between August and November 2013 on all regulated routes in WA was in excess of the 80 per cent OTP benchmark for the first time since the deeds for regulated air routes were struck in early 2011. The OTP is monitored by the State Government and regular consultation with the RPT airline is undertaken to improve the OPT on routes where the 80 per cent benchmark is not being achieved.



→ **Size of charter aircraft** – in some cases charter airlines need to adjust their operations by using smaller aircraft but at the same time increase frequency of flights, so that the overall seat capacity remains the same. For example, if an existing charter service per week in Fokker 100 aircraft with seat capacity of 100 changes its operations to twice-weekly charters in Fokker 50 aircraft with seat capacity of 50, there is no increase in the charter passengers.

As government approval is required for any charter that flies more than once per week, some charter operators have raised their dissatisfaction with the potential implications in their licensing conditions. In other words, there is an argument that because the number of charter passengers would remain the same, there is no impact on the RPT service and the approval of the extra charter should not be subject to additional licensing conditions.

→ **Availability of RPT seats** – some regional communities have expressed concerns regarding the unavailability of RPT seats in the Northern Goldfields due to substantial block bookings by mining companies on RPT flights. Similarly, charter operators and their mining clients have also highlighted this as an issue arising from complying with the *special* condition on their aircraft licence to purchase RPT seats. This could suggest that demand for the RPT service is sufficient and therefore there is no need to impose a *special* charter condition on charter licences to purchase extra RPT seats. However, one reason for the difficulty in securing RPT seats on some routes is the demand for RPT flights is in one direction only on some days of the week, consistent with the nature of aviation demand associated with FIFO activities. Typically, demand is high for flights going to the regional mine sites early in the week, with limited demand going back to Perth. The situation is reversed at the end of the working week. Furthermore, on closer examination of this issue, it has become evident that, as with any other airline, RPT seats are not guaranteed by last-minute bookings but by purchasing at least three weeks in advance.



7.6. Proposed amendments to charter policy

7.6.1. Objectives of proposed charter policy

In the context of the key challenges outlined previously, the State Government's primary objective is to protect the viability of RPT services for regional communities, while also meeting the needs of the mining companies. Although the optimum arrangements may be difficult to determine at times, a future charter policy must balance as best as possible both the needs of the resource industry and the needs of the community. Importantly, the State Government will only regulate charters where the extent of charter operations is likely to undermine RPT operations on a route.

Several amendments to the charter policy are proposed to balance the viability of RPT air services, while minimising any cost on the resources and charter industry. Despite some of the acknowledged challenges with charter regulation, the proposed amendments to the charter policy were broadly acceptable to charter operators and the RPT airlines concerned when initially consulted by DoT.

The intended outcomes of the charter policy are that:

- an adequate level of RPT air services to regional communities is maintained;
- economic development is fostered for the WA resources sector;
- travel costs through closed charter air services for the resources and charter industry are minimised; and
- State Government policy is consistent and transparent in the interest of fair charter assessment and management.

7.6.2. Application of proposed charter policy

Under the proposed charter policy, requests for the provision of charter air services on all RPT routes may be:

- a) approved subject to standard and/or operational licence conditions only (such as requirements for data collection) where passenger volumes on the RPT service are deemed sufficiently high and will not have a negative impact on the viability of the RPT services; or

- b) approved subject to standard and operational licence conditions as well as an additional *special* charter condition for the purchase of RPT seats equal to a nominal five per cent (or other percentage if deemed appropriate to meet charter policy objectives) of the requested charter seats where passenger volumes are not deemed sufficiently high for the sustainability of the RPT service; or
- c) rejected where the viability of RPT services is at risk, that is when the frequency level of RPT services would fall below three services per week.

7.6.3. Special charter condition

The proposed changes to the charter policy aim to eliminate assessment of charter applications on a case-by-case basis and instead adopt a more transparent and consistent approach. At a minimum, the proposed charter policy will provide clarity to charter airlines when assessing future time slots for charter flights and whether these coincide or overlap with the RPT services. This is an important consideration in the context of the placement of a *special* charter condition on the charter operator's aircraft licences, where applicable.

The proposed charter policy changes provide for a *special* aircraft licence charter condition that will apply to charter services on RPT routes, where the risk of the RPT service becoming unviable is high.

It is proposed that this *special* charter condition will require the charter operator (through their mining client) to purchase, at least two weeks in advance, a certain number of seats on the RPT air service. The number of RPT seats required to be purchased is based on a nominal five per cent (rounded up to the nearest whole number) of the total requested charter seats (that is, charter aircraft size).

The *special* charter condition will be placed (where applicable) on the charter operator's aircraft licence where:

→ **the one-way charter flight operates on the same day as the RPT air service** – this is assessed at the time the charter application is submitted to DoT;

AND

→ **there is a difference of less than four hours between the departure time of the RPT service and the departure time of the charter service.**

Note: Any direct sale or transfer of RPT seats purchased by charter operators to any third parties (including to mining or other clients of the charter operator) may be regulated by the Travel Agents Act 1985, that is, charter operators may need to have a Travel Agent Licence issued by the Western Australian Department of Commerce. However, seats purchased on the relevant RPT flight directly by the mining client of the charter operator will be recognised by the Department of Transport as purchases by the charter operator for the purposes of satisfying any special charter condition placed on the Aircraft Licence of the charter operator as long as the Department of Transport is provided, as and when required, with proof of purchase of the RPT seats.

7.6.4. Guiding principles

Amendments to charter regulation policy in WA, including the placement of a *special* charter condition, are based on the following guiding principles:

1) Non-RPT routes

Charter operators can undertake an unlimited number of charter services on any non-RPT routes, such as private mining site airstrips, without approval from the State Government. However, charter airlines are still required to be licensed under the *Transport Coordination Act 1966 and Regulations* and provide written advice with details of their operations to DoT.

2) Unregulated RPT routes

Charter operators can, at any time, operate **one return charter in any type of aircraft**, on behalf of one client per calendar week **on any unregulated RPT air route** (such as Port Hedland or Karratha) **without approval** from the State Government. No *special* charter conditions will apply.

Approval is required from the State Government for **multiple charter services per week** flying over unregulated RPT air routes **in any type of aircraft**.

Depending on whether an unregulated RPT route has a high or low-traffic volume in terms of the annual number of passenger movements, two categories of unregulated RPT routes are distinguished in order to determine whether the criteria for a *special* charter condition will need to be taken into account as part of the assessment process of charter applications.

- A. *Category A* – where an unregulated RPT route has 150,000 passenger movements or more in the preceding 12 months prior to the charter application, the proposed provision of multiple charter services per week on such high traffic-volume, unregulated RPT routes will not be subject to a *special* charter condition, regardless of whether the schedule of the proposed charter services coincides or overlaps with the schedule of the RPT services.
- B. *Category B* – where an unregulated RPT route has **fewer than 150,000 passenger movements** in the preceding 12 months prior to the charter application, the proposed provision of multiple charter services per week on such lower traffic-volume, unregulated RPT routes will be subject to an assessment against the criteria for the placement of a *special* charter condition (unless exemptions apply as outlined within this section).

For example, the Perth-Learmonth route (as a future unregulated RPT route) with an annual passenger volume of 86,000 cannot be compared to the Perth-Karratha route which has over 800,000 passenger movements per annum. The lower volume of RPT traffic in Learmonth means that charter operations to this airport will have a disproportionately greater impact on the RPT services than would be the case in Karratha.



3) Regulated RPT routes

Charter operators can, at any time, operate **one return charter in aircraft with 18 seats or fewer**, on behalf of one client per calendar week **on any regulated RPT air route without approval** from the State Government. No *special* charter conditions will apply.

Approval is required from the State Government for the provision of:

- **one charter service per week in aircraft with 19 seats or more** flying over regulated RPT air routes; **and/or**
- **multiple charter services per week in any type of aircraft** flying over regulated RPT air routes.

Applications for such charter operations on regulated RPT routes will be subject to an assessment against the criteria for the placement of a *special* charter condition (unless exemptions apply as outlined within this section).

Aircraft with 19 seats have been chosen as the cut-off point in the assessment process as this is the minimum-size aircraft that can be operated on regulated routes as stipulated in current deeds between the State Government and airlines.

7.6.5. Exemptions from special charter conditions

Exemptions from imposing a *special* charter condition requiring the purchase RPT seats equal to five per cent of proposed charter seats will apply in the following situations:

- a) when *extraordinary* circumstances arise, such as charter services for emergency purposes; or
- b) when the circumstances in which charter operations are provided are deemed by the Minister for Transport as requiring an alternative set of charter conditions.

Charter operators may be *partially* exempted from the *special* charter condition (that is, purchase RPT seats to a threshold below five per cent) by having a requirement to purchase a reduced percentage of RPT seats, or be *fully* exempted (no purchase of RPT seats) by having no requirement to purchase any RPT seats.

7.7. Key findings

- *The State Government's priority is to maintain sufficiently frequent RPT services while imposing the least possible cost on the charter and resources industry. Charter flights are regulated to ensure that they do not detract from the viability of RPT services.*
- *The resources sector frequently uses charter services to transport their FIFO workforce and in many cases the volume of charters in WA is significantly higher than the RPT traffic. This poses a risk to the RPT service, especially in the Northern Goldfields where the currently protected RPT routes are marginal.*
- *Amendments to the current charter policy are essential to ensure the viability of RPT services and provide for a more consistent and transparent approach to assessing charters in the future.*
- *The placement of a special condition on the aircraft licence of a charter operator, where applicable, requiring the purchase of a certain number of RPT seats on the route to support the RPT service is necessary for the sustainability of RPT air services in regional WA.*
- *One return charter per week per client is permitted at any time on any unregulated RPT route in WA in any type of aircraft. Multiple charter services per week on unregulated RPT routes require approval.*
- *Approval is required for one return charter per week per client in aircraft with 19 seats or more and multiple charter services flying over regulated RPT routes.*

7.8. Recommendation

In the interest of maintaining an adequate level of RPT air services, continue to regulate charter operations over RPT air routes and implement the proposed charter policy amendments in 2014. This includes the capacity to place a *special* charter condition (unless exemptions apply) on aircraft licences to purchase a certain number of seats on the RPT service in the cases:

- when the RPT route is regulated or when the RPT route is unregulated but has a traffic volume of fewer than 150,000 passenger movements per annum;

AND where:

- ***the one-way charter flight operates on the same day as the RPT air service.*** This is assessed at the time the charter application is submitted to DoT; and
- ***there is less than four hours difference between the departure time of the RPT service and the departure time of the charter service.***

ATTACHMENT 1

GUIDELINES FOR SUBMISSIONS

Delivery process

Closing date for submissions: **31 October 2014**

Responses to this position paper are encouraged from the public and interested organisations as per the methods below:

SUBMISSION METHOD	VIA
Email	airroutesreview@transport.wa.gov.au; or
Mail	Review of Regulated RPT Air Routes Aviation Policy Branch Department of Transport GPO Box C102 PERTH WA 6839

Content

Submissions can address the entire position paper or parts thereof.

Submissions should clearly indicate to which section of the position paper they refer.

As a minimum, submissions are to include the following:

- Name of organisation and individual;
- Date of submission;
- Contact details: name of person and telephone, email address; and
- Relevant section/s of position paper discussed in the submission (for example, regional air route, page number of the position paper, table or figure number).

Submissions will remain confidential.

ATTACHMENT 2

ACRONYMS

AOC	Air Operator's Certificate
BITRE	Bureau of Infrastructure, Transport and Regional Economics
CASA	Civil Aviation Safety Authority
DoT	Department of Transport of Western Australia
FIFO	Fly-in Fly-out (staff, workforce)
GDS	Global Distribution System
OTP	On-Time Performance
OTS	Office of Transport Security
RAAF	Royal Australian Air Force
RPT	Regular Public Transport
SAS	Draft State Aviation Strategy (2013)
VARA	Virgin Australia Regional Airlines

ATTACHMENT 3

DEFINITIONS AND INTERPRETATIONS

Average fare	The average one-way fare, including all taxes and charges, between Perth and a regional centre in WA calculated over a financial year.
Closed charter service	A service in which the accommodation in the aircraft is not available for use by persons generally (as defined by CASA legislation).
Market failure	Market failure occurs when the market does not operate efficiently, that is, when an adequate level of air services upon which local communities rely ceases to exist in terms of frequency, reliability, quality and affordability, thereby having a detrimental impact on the life standards and wellbeing of regional populations.
Load factor	The number of actual passengers occupying seats versus the seat capacity of the aircraft, that is, the percentage of actual passengers relative to aircraft seating capacity.
OTP	The percentage rate of flights when an aircraft arrives within 15 minutes of its scheduled time of arrival. The OTP benchmark stipulated in existing deeds between airlines and State Government is 80 per cent.
Price-inelastic	Where price is relatively unresponsive to changes in demand, such as when demand fails to increase in proportion to a decrease in price.
RPT service	<p>A regular public transport service that operates according to a published schedule as defined under the Western Australian <i>Transport Coordination Regulations 1985</i>.</p> <p>Under Civil Aviation Safety Authority's (CASA) legislation an RPT service is defined as "operations involving transporting persons generally, or transporting cargo for persons generally, for hire or reward, in accordance with fixed schedules to and from fixed terminals over specific routes with or without intermediate stopping places between terminals".</p>
Thin/marginal route	An air route on which passenger volumes and profitability are deemed low.
Unregulated monopoly	A single supplier or firm operating in a market that is not regulated by government authorities. A monopoly firm can select a higher price and lower output than could be achieved in a competitive market.
Y fare	The fully flexible airfare charged by airlines on one-way flights including all taxes, fees and charges.

© State Government of Western Australia

Published by the

Department of Transport

140 William Street

Perth Western Australia 6000

www.transport.wa.gov.au

Phone: (08) 6551 6000

Fax: (08) 6551 6001

Disclaimer: The information contained in this publication is provided in good faith and believed to be accurate at time of publication. The State shall in no way be liable for any loss sustained or incurred by anyone relying on the information.