



Department of
Transport

Review of Regulated Regular Public Transport Air Routes in Western Australia Final Public Report 2015



MINISTER'S FOREWORD

Aviation services are important for Western Australia's social and economic wellbeing. The State Government's key objective is to ensure the community has Regular Public Transport (RPT) intrastate air services that are safe, affordable, efficient and effective. The inaugural *Western Australian State Aviation Strategy*, endorsed by the State Government in February 2015, supports the vision to maintain and develop quality air services that are essential to regional and remote communities in WA (DoT, 2015).

The State Government's position is to take a light-handed approach to the regulation of air routes where feasible. Less regulation of air routes fosters opportunities for competition that may result in reduced airfares, increased diversity in air services and more choice for travellers, as well as reducing 'red tape'. However, the State has an obligation to balance this perspective with the need to maintain marginal air services for regional and remote towns within WA.

This Final Report on intrastate services builds upon the position paper released for public comment as part of the Review of Regulated RPT Air Routes in July 2014. The Department of Transport consulted extensively over three

months, receiving a total of 43 submissions from various stakeholder groups, including airlines, local governments, state government agencies, the resource industry, and peak tourism and business bodies, as well as from members of the general public. In addition, there has been significant engagement with stakeholders and communities through ongoing regional Aviation Community Consultation Group meetings.

The submissions and consultations have assisted the State Government to form a final recommendation for the future of each of the eight reviewed routes. This Final Report, which reflects comprehensive consultation and analysis of the community and stakeholder feedback, outlines the regulatory approach to be taken for each of the eight currently regulated air routes in WA beyond 2016. The report also outlines a policy designed to ensure that charter air services do not detract from the viability of RPT air services, while minimising any cost on the resources industry, which is a major contributor to the State's economy.

I look forward to the implementation of the recommendations in this report and continuing engagement with regional communities to ensure a sustainable aviation future.

Hon Dean Nalder MLA
Minister for Transport





Nifty Airstrip
Source: Network Aviation

EXECUTIVE SUMMARY

Purpose of this document and methodology

This report provides recommendations regarding the regulatory approach to Regular Public Transport (RPT) air routes in WA beyond 27 February 2016, when the current deeds of agreement between the State Government and incumbent RPT airlines expire. In addition, the report outlines the policy for closed charter air services that is designed to ensure that these services do not detract from the viability of RPT air services. The recommendations in the report have been approved by the Minister for Transport.

The report concludes the Review of Regulated RPT Air Routes (the Review). The report takes into account the feedback from 43 formal submissions on the Review's Position Paper and regional workshops held during a three month consultation period. The report is also based upon airline statistics and surveys that provided a demand profile for each route with regard to the unique social and economic context of each community.

Background on the review of RPT air routes

In July 2013 the Department of Transport commenced a Review of Regulated Regular Public Transport (RPT) Air Routes in WA (the Review). In line with the *Western Australian State Aviation Strategy* (DoT, 2015), the objectives of the Review were to assess the existing regulation model and recommend the best future regulatory approach for eight currently protected RPT air routes, namely:

1. Perth–Albany;
2. Perth–Derby;
3. Perth–Esperance;
4. Perth–Laverton–Leonora;
5. Perth–Learmonth (Exmouth);
6. Perth–Monkey Mia–Carnarvon;
7. Perth–Mount Magnet–Meekatharra; and
8. Perth–Wiluna–Leinster.

Three airlines – Skippers Aviation, QantasLink and Virgin Australia Regional Airlines (VARA, which acquired Skywest Airlines) – have been operating on the protected air routes in WA since 2011 under deeds of agreement with the State Government. The Perth–Derby route is protected under a different regulatory arrangement through an exclusive aircraft licence also until 27 February 2016.

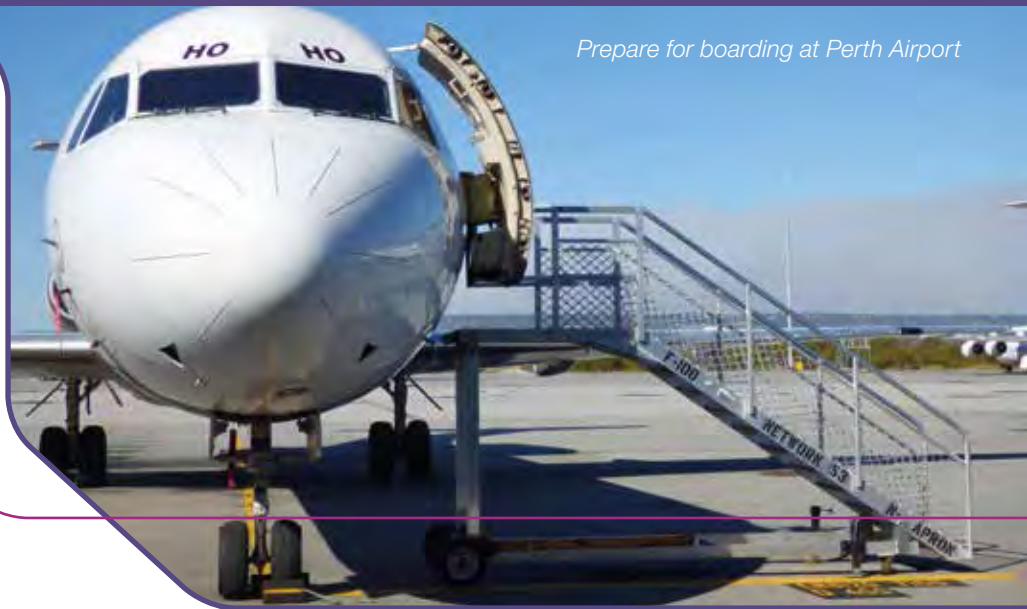
Strategic policy considerations

Aviation in WA is essential to local economies and for the social and health needs of regional people, who are particularly dependent on safe and reliable air services. Air services often provide the most efficient mode of transport for WA's dispersed communities. In addition, air services also bring visitors to the regions and help to grow tourism markets, as well as transport employees and services needed for business and resource industry operations across the State.

In view of the objectives of the *Western Australian State Aviation Strategy*, the State Government has developed a policy to support the social and economic resilience of communities through safe, affordable, efficient and effective aviation services.

The State Government's policy objectives for intrastate RPT air routes in WA are to:

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



State Government's position on regulation

Aviation in WA is primarily a commercial market enterprise. The State Government's view in respect to RPT services, is that government intervention is only required when there is an unacceptable risk of market failure, which would jeopardise services to regional areas. Market failure occurs when an adequate level of air services – in terms of frequency, reliability, quality and affordability – ceases to exist, thereby having a detrimental impact on the wellbeing of regional communities. Air routes to regional centres, such as Kalgoorlie, Karratha and Broome, are not regulated as they do not suffer from these risks.

Generally, a light-handed regulatory approach is preferred as it allows for a more flexible system that can be more responsive to volatile markets. However, in some cases regulation is necessary to protect the public and “achieve important economic, social and environmental objectives” (DPMC, 2013). Routes with insufficient passenger volumes 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 key benefits of aviation regulation are that it:

- ensures publicly accessible services to regional communities;
- provides greater certainty for communities and industries; and
- provides an opportunity to discuss scheduling prior to changes occurring in the community.

Regulation of air services does not mean guaranteed profits for the RPT airline awarded rights to operate on a certain route. Rather, regulation should be viewed as a way to increase the likelihood of sustainable commercial operations.

Historically, most RPT routes in WA have been operating without government subsidies, that is, without impost on taxpayers. Given the current economic and financial conditions, subsidies for intrastate aviation beyond 2016 will only be considered by the State Government when absolutely essential.

Key aviation factors and issues

The aviation industry is affected by various economic factors and can therefore be subject to rapid change. Key influencing factors include the volatility of resource industry operations, fuel costs, ageing aircraft and other economic considerations. Supply and demand for regional aviation in WA is particularly affected by the resources sector. Without the demand generated by these sectors many regional towns in WA would not have an RPT service.

In this context, achieving a balance between the needs of regional communities and resource industries while ensuring the provision of sustainable air services is challenging. Other key issues in providing these services include high airfares compared with the rest of Australia, high demand for charter operations, airlines' on-time performance, security screening costs at regional airports and directional fluctuations in passenger demand.

Route-by-route recommendations

Perth–Learmonth (Exmouth) route

The Perth–Learmonth route is the most robust regulated RPT air route in WA in terms of passenger demand, with approximately 90,000 people flying to/from Exmouth in 2013–14. Demand on the route comes mostly from the tourism market and the oil/gas companies operating offshore from Exmouth, the latter of which underpins most of the passenger numbers. Local residents and businesses also use the RPT air services.

The route was partially deregulated in 2011 and for over three years the RPT services were provided by QantasLink and VARA in direct competition until VARA ceased operations on the route in October 2014. Despite this, passenger demand remains strong and there is no reason to prohibit the possible entry of a second RPT operator on this route beyond 2016.

In the event that another airline does not enter this route—an outcome about which the community has indicated concern insofar as that in an unregulated environment a single operator may increase airfares—minimal regulation is required to ensure the sole airline does not behave in a manner that is not in the best interests of the community in terms of affordability and reliability of air services. As such, the State Government will have oversight of airfares, passenger numbers and on-time performance rates.

Final recommendation:

Reduce regulation on the Perth–Learmonth air route beyond 27 February 2016, whereby the State Government will:

- allow other airlines to enter the market and operate on the route at any time; and
- for as long as the route is serviced by a sole operator, place conditions on the airline's licence that requires the reporting of key route statistics.

Perth–Albany route

The Perth–Albany route is the second busiest regulated air route in WA. In 2013–14 the route carried almost 60,000 passengers, the majority of which were from the corporate market. Although passenger numbers on the route are relatively solid and a certain level of RPT services would continue to be viable even in an unregulated environment, the current level of demand is insufficient for two operators. The inclusion of another airline on the route should only be considered when there is evidence that demand is sufficient to sustain airline competition. Such demand is generally around 100,000 passengers per year.

There are community concerns that airfares on the Perth–Albany route are generally high and inhibit route development. Given the region's diversity of tourism activities, various holiday packages offering good value for money for customers should be actively promoted in order to stimulate leisure travel. Strong engagement between the airline, the community and tourism organisations is required to promote wider awareness of the region's tourism activities in the future and generate increased patronage.

Continued regulation of the Perth–Albany route is required for up to five years beyond February 2016, subject to a mid-term route review to determine if the performance of the operator is satisfactory. A competitive tender process in 2015 will ensure accountability, fairness, equity and transparency in choosing the operator that best meets community needs and commits to developing the route.

Final recommendation:

Regulate the Perth–Albany air route beyond 27 February 2016 and award rights to a single RPT operator for up to five years, subject to a route review of airline performance.

Perth–Esperance route

The Perth–Esperance route is among the busiest regulated routes in WA. In 2013–14 the route carried almost 48,000 passengers, the majority of which were from the corporate market. Although the route is relatively robust and a certain level of RPT services would continue to be viable even in an unregulated environment, the current level of demand is insufficient for two operators. In the same manner as for the Perth–Albany route, the inclusion of another airline on the Perth–Esperance route should only be considered when there is evidence that demand is sufficient to sustain airline competition. Such demand is generally around 100,000 passengers per year.

There are community concerns that airfares on the Perth–Esperance route are generally high and inhibit route development. Given the region's diversity of tourism activities, various holiday packages offering good value for money for customers should be actively promoted in order to stimulate leisure travel. Strong engagement between the airline, the community and tourism organisations is required to promote wider awareness of the region's tourism activities in the future and generate increased patronage.

Continued regulation of the Perth–Esperance route is required for up to five years beyond February 2016, subject to a mid-term route review to determine if the performance of the operator is satisfactory. A competitive tender process in 2015 will ensure accountability, fairness, equity and transparency in choosing the operator that best meets community needs and commits to developing the route.

Final recommendation:

Regulate the Perth–Esperance air route beyond 27 February 2016 and award rights to a single RPT operator for up to five years, subject to a route review of airline performance.

Perth–Monkey Mia–Carnarvon (Coral Coast) route

With approximately 25,000 passengers per year, demand for Perth–Carnarvon RPT services is sufficient for one operator only. With only 3600 passengers in 2013–14, generated predominantly from the leisure market, demand for Perth–Monkey Mia RPT services is barely sufficient for one operator. Demand for Monkey Mia services has declined in recent times and, if this trend continues, the viability of RPT services to this popular tourism destination may be at risk.

Compared to other regional routes in WA, the low passenger demand makes the Coral Coast route relatively marginal. To minimise the potential risk of air services ceasing to exist (that is market failure) in the future due to being commercially unviable, regulation of air services to both towns is the most appropriate course of action beyond 2016.

Large aircraft (over 20,000 kg) are unsuitable for operation on the Coral Coast route because there are currently 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, but this would require substantial capital investment.

Continued regulation of the Coral Coast route is required for up to five years beyond February 2016, subject to a mid-term route review to determine if the performance of the operator is satisfactory. A competitive tender process in 2015 will ensure accountability, fairness, equity and transparency in choosing the operator that best meets community needs and commits to developing the route. The establishment of new route configurations and flight paths may be considered.

Final recommendation:

Regulate the Coral Coast air route beyond 27 February 2016 and award rights to a single RPT operator for up to five years, subject to a route review of airline performance. Regulation may see either the maintenance of the existing route connections or the establishment of new route configurations between Perth and Carnarvon and between Perth and Monkey Mia.

Northern Goldfields routes

Three RPT air routes in the Northern Goldfields region have been assessed together as they have similar characteristics:

1. Wiluna and Leinster;
2. Leonora and Laverton; and
3. Meekatharra and Mount Magnet.

With approximately 20,600 passengers in 2013–14 across all three routes, the Northern Goldfields routes are marginal. Demand is low and almost insufficient for one operator, let alone for more operators.

Demand on the Northern Goldfields routes is largely underpinned by the resources sector. The volatility of the mining industry makes traffic levels on the routes unstable and difficult to predict. With the recent slowdown of the resources sector, the regional communities would be likely to lose their RPT services in an unregulated environment, that is, there is a significant risk of having no air services beyond 2016 should the route become unregulated. Even maintaining a regulated market will not guarantee a continuation of RPT air services given the low and declining passenger volumes.

There is limited interest from airlines in providing RPT services on the Northern Goldfields routes beyond 2016. Nevertheless, in the interest of accountability, fairness, equity and transparency, the routes will be subject to a competitive tender process in 2015 through which a single airline will be appointed to operate the routes for up to five years under an agreement with the State Government. The establishment of new route configurations and flight paths may be considered.

Leinster is a closed town which only exists for the mining operations of BHP Billiton. Its population comprises mining staff and their families, all of whom can access frequent BHP charter flights. There is no need for air services for the general public. Therefore, Leinster RPT flights are to be discontinued.

Final recommendation:

Regulate air routes in the Northern Goldfields beyond 27 February 2016 and award rights to a single RPT operator for up to five years, subject to a route review of airline performance. Regulation may see either the maintenance of existing route connections or the establishment of new route configurations, direct or triangulated, between Perth and the following airports: Laverton, Leonora, Meekatharra, Mount Magnet and Wiluna.

AND

Discontinue Leinster as an RPT airport beyond 27 February 2016.

Perth–Derby route

The RPT services on the Perth–Derby route are underpinned by three mining companies operating in the region. With approximately 42,000 passengers in 2013–14, current demand on the route is relatively high but insufficient for two operators. Due to reduced mining operations in the region, there has been a recent decline in passenger numbers and this has resulted in a reduced frequency of RPT air services and the use of smaller aircraft. The inclusion of another airline on the route should only be considered when significant economic changes in the region occur and there is evidence that demand is sufficient to sustain airline competition. Such demand is generally around 100,000 passengers per year.

Continued regulation of the Perth–Derby route is required for up to five years beyond February 2016, subject to a mid-term route review to determine if the performance of the operator is satisfactory. A competitive tender process in 2015 will ensure accountability, fairness, equity and transparency in choosing the operator that best meets community needs.

Final recommendation:

Regulate the Perth–Derby (Curtin Airport and/or Derby General Aviation Airport) air route beyond 27 February 2016 and award rights to a single RPT operator for up to five years, subject to a route review of airline performance.

Charter policy

A key component of the Review is the policy for 'closed' charter air services. Closed charters are defined by the Civil Aviation Safety Authority as those that are not available to the general public. The State's economy is largely underpinned by the resources sector and its iron ore, gold and various mineral mining and oil and gas operations. Many resources companies use charter air services to transport their fly-in-fly-out workforce.

Generally, a closed charter service provides more flexibility and is more cost efficient to run than an RPT service. However, when charter operators transport their resources industry 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 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 and minimise costs on the resources and charter industries.

The objectives of the charter policy are to:

- maintain an adequate level of air services to regional communities;
- foster economic development for the resources sector in WA;
- minimise costs for the resources and charter industries; and
- adopt a consistent and transparent State Government policy 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, applications for charter operations on RPT routes are to be assessed based on two guiding principles.

1. 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 the 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 traffic volume of fewer than 150,000 passenger movements per annum.

2. 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 the State Government is required for a single charter service per week in an 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 charter policy provides for a special condition imposed upon charter operations on RPT routes where the risk of the RPT service becoming unviable is high. The special condition will require the charter operator (through their resources industry client) to purchase a certain number of seats on the RPT air service. This 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.

Final recommendation:

In the interest of maintaining an adequate level of RPT air services, continue to regulate closed charter operations over RPT air routes. This includes the ability to place a *special* charter condition (unless exemptions apply) on aircraft licences to purchase a certain number of seats on the RPT service in 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 closed 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 closed charter service.

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Plane flying overhead

PART 1 INTRODUCTION

This report follows on from the Position Paper released for public comment on 31 July 2014 by the Government of Western Australia as part of the Review of Regulated Regular Public Transport Air Routes. The Position Paper is available on the Department of Transport's website at www.transport.wa.gov.au/aviation.

1.1 Purpose of this document

This report provides recommendations regarding the regulatory approach to specific Regular Public Transport (RPT) air routes in WA beyond 27 February 2016 when current deeds of agreement between the State and incumbent RPT airlines expire. In addition, this document also provides details on the regulatory approach to charter air services in WA. The report concludes the Review of Regulated RPT Air Routes.

The recommendations have been approved by the Minister for Transport.

1.2 Background of the Review of RPT Air Routes

In July 2013 the Department of Transport (DoT) commenced a Review of Regulated RPT Air Routes in WA (the Review). In line with the Western Australian State Aviation Strategy, the objectives of the Review were to assess the existing regulation model and recommend the best future policy approach for eight currently protected RPT air routes:

1. Perth–Albany;
2. Perth–Derby;
3. Perth–Esperance;
4. Perth–Laverton–Leonora;
5. Perth–Learmonth (Exmouth);
6. Perth–Monkey Mia–Carnarvon;
7. Perth–Mount Magnet–Meekatharra; and
8. Perth–Wiluna–Leinster.

Figure 1 shows all currently regulated RPT air routes in WA. The Kimberley route (Broome–Derby–Fitzroy Crossing–Halls Creek), which is the only State-subsidised air route in WA, was not within the scope of the Review and is subject to a separate assessment.

The Review commenced at the mid-term of existing deeds between the State Government and three incumbent RPT airlines – Virgin Australia Regional Airlines (VARA, which acquired Skywest Airlines), Skippers Aviation and QantasLink. The deeds, which were executed in February 2011 following a competitive tender process, expire on 27 February 2016 and have an option for an extension of up to five years. The Perth–Derby route has been the only route protected under an exclusive aircraft licence until the same date. The early commencement of the Review and notification of its outcomes aimed to provide sufficient notice for airlines and resource sector companies to make any required adjustments to their operations necessitated by any changes to the regulatory approach that will be taken beyond 2016.

The Review has also covered the State Government policy for closed charter air operations. The charter policy (part 7) aims to ensure that charter air services do not detract from the viability of RPT services, while also minimising costs for the resources industry.

Figure 1: Map of regulated RPT air routes in Western Australia



Note 1: The Kimberley route (Broome–Derby–Fitzroy Crossing–Halls Creek), which is the only State-subsidised air service in WA, is not within the scope of this report.

Note 2: Busselton and Ravensthorpe are unregulated routes; however, as proposed by the RPT airline, they were included in the deed as they were seen to provide an additional value for the local communities. Since 22 April 2015 Busselton no longer receives RPT services.

Note 3: 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 airport maintenance.

Note 4: Since 13 October 2014, Learmonth no longer receives RPT services from VARA.

Note 5: Since 30 September 2013, the RPT services to/from Leinster have been suspended as Leinster is a closed mining town.

PART 2

STRATEGIC POLICY CONSIDERATIONS

2.1 State Aviation Strategy

The aviation industry is a significant driver of economic and social development in WA. Aviation is a transport option for both communities and businesses, and air services play 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.

The State Government's vision is to establish a world-class aviation network that promotes WA's economic and social development. This vision was identified in the *Western Australian State Aviation Strategy*, which was endorsed by the State Government in February 2015 following extensive public consultation.

As outlined within the *Western Australian State Aviation Strategy*, the State Government has adopted an active strategic policy approach to aviation that will support the economic and social growth and prosperity of WA. Within this broader context the State Government's policy objectives for intrastate air services aim to:

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



Skippers Aviation Airfield, Perth Airport

2.2 Key principles of regulation

There are four key principles underpinning decision-making in respect to regulated RPT air services are:

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 the Government.
3. Less Government intervention in the market encourages innovation and competition on air routes, which may lead to reduced airfares and greater choice for consumers.
4. All communities with more than 500 people should ideally have access to an RPT air service operating a minimum of three services a week, the airport should be located within 250 km of the town and be accessible by a sealed road.

2.3 State Government's position on regulation

In the last few decades there has been a significant reduction in economic regulation in Australia, although where it is in the public interest to achieve wider social objectives some regulation remains. The Review's Position Paper (released in July 2014) outlined in detail the economic principles, risks and benefits of regulation and deregulation, and proposed an overall light-handed regulatory approach.

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



Generally, a light-handed regulatory approach is preferred as it allows for a more flexible system that can be more responsive to market needs. For those RPT air routes that are deemed capable of sustaining competition, less regulation stimulates jobs, economic and tourism growth, and fosters new, innovative paths for regional towns and business investment. For example, air routes to regional centres such as Kalgoorlie, Karratha and others are not regulated. In a competitive environment, market forces drive the level of services, encourage innovation, foster lower airfares, and provide for improved outcomes for Western Australians. Although a RPT air route without regulation does not guarantee acceptable market outcomes, it does enable market forces to drive demand and supply, while also reducing or eliminating the need for the Government to intervene in commercial situations.

The 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) that resulted in increased passenger volumes and reduced airfares—a desired outcome given the concern regarding airfares in WA being some of the highest in the nation.

By contrast, in some cases regulation is necessary to protect the public and “achieve important economic, social and environmental objectives” (DPMC, 2013). Routes with insufficient passenger volumes 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. 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” (DITRDLG, 2008).

Key benefits of aviation regulation are that it:

- ensures publicly accessible services to regional communities;
- provides greater certainty to communities and industries; and
- provides opportunity to discuss scheduling prior to changes occurring in the community.

2.4 Governance of intrastate air routes in WA

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, 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 regulatory law is to ensure that Western Australians are provided, as far as is practicable, with reliable, efficient and economical transport services. Under this legislation the Minister is empowered to regulate intrastate air routes by placing various conditions on aircraft licences, such as specifying the frequency of airline operations, requiring the provision of statistics or imposing any other conditions considered in the public interest.

It is important to note that under current legislation aircraft licences can be issued for up to 12 months. However, at the time of writing this report, the State Government, taking into account airline feedback provided on the Review's Position Paper, is considering amendments to the *Transport Coordination Act 1966* and the *Transport Coordination Regulations 1985*. The legislative changes would seek to reduce regulatory administrative burden and 'red tape' by:

- extending the validity of aircraft licences for up to five years; and
- issuing aircraft licences only to RPT and charter airlines operating on:
 - regulated RPT routes; and/or
 - unregulated RPT routes that are deemed strategically important by the State.

In addition to licensing individual aircraft, the State Government may also give rights to airlines to operate on a specified route by way of a legal deed for a longer term. Such regulation of intrastate air routes aims to provide greater certainty for communities, businesses and airlines in respect to the provision of air services. For example, under current deeds, RPT airlines:

- are required to provide, at a minimum, the stipulated number of air services per week to the nominated regional airports;
- must seek approval from the State Government for any timetable changes;

- may not charge more than the maximum airfare established for each route;
- are required to participate in biannual meetings with regional stakeholders; and
- are required to provide monthly statistics on passenger movements, load factors, average airfares and on-time performance.

The Department of Transport (DoT) is responsible for administering aircraft licences in WA and managing the deeds for regulated intrastate air routes.

2.5 Way forward beyond 2016

Route regulation in WA is not determined purely based on the annual number of passengers, as suggested in other parts of Australia, although the level of demand is taken into account to provide relevant context for each route assessment. Other route characteristics and economic factors are also considered in making decisions as to whether or not 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 an unregulated market compared to the potential benefits of open competition.

The current regulatory framework of RPT air routes in WA is in place until February 2016. Beyond this date the State Government will focus on reduced regulation in order to maximise 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. As summarised in part 5, the RPT routes beyond 2016 will see a mixed regulatory model resulting in the following broad categories:

- **minimum regulation** by allowing a second operator on the route at any time, but maintaining minimal Government oversight of pricing for as long as the route is served by a sole operator (for example, Perth–Learmonth route); and
- **regulation** for up to five years (after an open competitive tender process where necessary), but subject to a route review after two years with options to extend monopoly rights, re-tender the route or, if appropriate, open the route to competition (for example from Perth to Derby, Albany, Esperance, Carnarvon–Monkey Mia or the Northern Goldfields).

2.6 Government subsidies

Prior to 2000, regulation of air routes in WA was minimal (Johnston & Trembath, 2005); however, Ansett's collapse in 2001 had a profound effect on the aviation industry and triggered a new approach to intrastate routes—with the State Government choosing to regulate marginal routes. Historically, most RPT routes in WA, even those that are marginal, have been operating without government subsidies, that is, without impost on taxpayers. 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 a subsidy from the State Government.

Regulation of air services does not mean guaranteed profits for the RPT airline awarded rights to operate on a certain route. Rather, regulation should be viewed as a way to ensure sustainable commercial operations. While regulation aims to ensure regular flights are provided for the regional communities, it must be recognised that the airline's commercial viability depends on sufficient demand in both directions, that is, demand for travel from Perth and not merely from regional passengers travelling to Perth. Nevertheless, it is important to note that in the current economic and financial conditions, subsidies for intrastate aviation beyond 2016 will only be considered by the State Government when absolutely essential.



Skippers Aviation Airfield, Perth Airport

PART 3

AVIATION CONTEXT

3.1 RPT airlines operating in Australia

The eight regulated RPT routes in WA are currently served by three airlines:

- QantasLink;
- Skippers Aviation; and
- Virgin Australia Regional Airlines (VARA).

Apart from the above, the following airlines have an RPT licence to operate within WA:

- Airnorth;
- Alliance Airlines; and
- Cobham Aviation.

In a broader context, the following airlines currently have a licence from the Civil Aviation Safety Authority (CASA) for RPT operations within Australia:

- Airnorth;
- Alliance Airlines;
- Cobham Aviation;
- Jetstar;
- Network Aviation;
- Qantas/QantasLink;
- REX;
- Sharp Airlines;
- Skippers Aviation;
- Tigerair; and
- Virgin Australia/Virgin Australia Regional Airlines (VARA).

3.2 Factors influencing air services

The aviation industry is affected by various economic factors and can therefore be subject to rapid change. The key influencing factors are outlined below.

Volatility of resources industry operations

Air services in WA are largely underpinned by the resources industry. As a major economic contributor to the State, employing approximately 100,000 personnel (Department of Employment, 2014) including fly-in-fly-out (FIFO) workers, the resources sector is heavily reliant on both RPT and closed charter air services.

In recent times, the mining industry has undergone significant change. The falling price of iron ore, gold and oil has slowed down the resources market in the last two years, and operations in 2014–15 have been challenging for the mining industry. The falling price of commodities has led to mining companies seeking ways to reduce costs, which has resulted in reductions in their workforces, including FIFO workers. Other resources projects have either gone into a care and maintenance mode or have ceased operations and closed mine sites. The slowdown of the resources sector is a key factor influencing RPT air services across the entire State, but within the scope of this report the greatest effect is upon the Northern Goldfields routes.

Fuel costs

High fuel costs in the past have put significant cost pressures on airlines in their endeavours to meet demand for air services efficiently. Recent declines in oil prices are likely to have somewhat alleviated such cost pressures, but they have also triggered community expectations for lower airfares.

The volatility of oil prices and aviation fuel generally makes it challenging for airlines to forecast their fuel costs and adjust their airfares in line with fuel price fluctuations.

Airport costs

As identified in the *Western Australian State Aviation Strategy*, some regional airports owned and operated by local governments have limited financial capacity (DoT, 2015). To maintain airport services, regional airports charge airlines various fees such as aircraft landing charges, head taxes and security screening fees. Airlines must factor airport costs into their fare structures.

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 in setting fees and charges at airports operated by local governments.

Operating costs of old smaller aircraft

“Ageing aircraft is a significant factor in the threat to thinner routes in regional networks” (Nancarrow, 2014). Maintaining old aircraft can be costly for airlines. In general, marginal air routes in WA could be at risk due to low passenger numbers if airlines continue the move to operating larger planes, greater than 50 seats, to improve economies of scale.

Other factors

Other key factors influencing intrastate routes include movements in the exchange rate of the Australian dollar, interest rates, business investments, and allocation of slots at Perth Airport.

Overall, the aviation environment can be difficult. Since 1990 the number of regional airlines in Australia has reduced from 58 to 13 in 2014. In the last decade alone, 14 airlines have ceased operations, with recent examples being Brindabella in December 2013 and Vincent Aviation in April 2014 (Nancarrow, 2014). In Western Australia, 48 airlines have either been acquired by larger carriers or have become bankrupt since 1960 (Thomas, 2015). Furthermore, in recent years the two major airlines in Australia – Virgin Australia and Qantas – have both made substantial losses. This has an impact not only on national and interstate travel but also on intrastate regional markets that are also suffering from soft demand. In 2013–14 Qantas reported a loss of \$2.8 billion and Virgin reported a loss of \$355.6 million, although more recent airline reports show a positive shift in the first quarter of 2015.

3.3 Key aviation issues in WA

In the context of the various factors impacting air services in WA, it is crucial to recognise and acknowledge the following key aviation issues.

→ **High intrastate airfares** – regional airfares in WA are among the highest across Australia and are a serious concern for regional towns as they disadvantage local communities and businesses and inhibit tourism growth.

The high airfares are at least partially attributable to the high fixed and labour costs, including airport fees, taxes and security charges. Airlines operating in WA highlight that, in general, airline costs decline as route distances increase, that is, based on cost per kilometre, operations on shorter routes are more expensive compared to long distance routes. In addition, seasonality can greatly impact aviation demand and airfares.

→ **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-insensitive and in most cases the high airfares are not incurred by individuals travelling for business purposes but rather by their employer. As a result, airfares can remain relatively high and reduce demand from more price-sensitive travellers including tourism, leisure and family visitors.

→ **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 due to the resources sector and its need for FIFO operations. 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.

While the downturn of the resources sector over the last two years has seen a reduced impact of charter operations on RPT services, there may be an increased need for charter services for the mining sector in the future.

→ **Directional fluctuations in passenger demand** – passenger demand can be highly directional on some intrastate RPT air services 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 have been some concerns about the reliability of flights in respect to an airline's on-time performance (OTP) on certain RPT air routes in WA, although there have been improved OTP results in 2014–15 on all regulated routes.

The minimum standard for OTP stipulated in existing deeds between airlines and the State Government is 80 per cent or above, and this is measured by the number of delays to scheduled flight times greater than 15 minutes. Even when flight delays are outside of an airline's control (for example, bad weather), they increase passenger dissatisfaction, affect productivity and impact on airlines due to increased costs associated with holding an aircraft on the ground or in the air for a prolonged period.

→ **Capacity of regional RPT airports** – most regional airports in WA are owned and operated by local governments, some of which do not have the financial capacity to expand and accommodate larger aircraft such as jets (for example, Fokker 100 or Boeing 717). Under Commonwealth legislation administered by the Office of Transport Security (OTS), aircraft above 20,000 kg require security screening of passengers and baggage.

A significant financial investment will be needed to upgrade the facilities of regional airports such as Carnarvon and Monkey Mia and airports in the Northern Goldfields to meet security screening requirements to allow the 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.



Aircraft line up at Perth Airport
Source: Network Aviation

3.4 Summary of the regulated routes' dynamics in WA

Table 1 and table 2 provide a summary of the annual passenger movements since 2006 and the frequency of RPT services on the regulated routes in WA.

Table 1: Summary of passenger movements on each regulated route

| FINANCIAL YEAR | LEARMONTH | ALBANY | ESPERANCE | DERBY | CARNARVON | MONKEY MIA | NORTHERN GOLDFIELDS |
|----------------|-----------|--------|-----------|--------|-----------|------------|---------------------|
| 2006-07 | 36,415 | 52,302 | 37,502 | 6,445 | 20,168 | 6,058 | 29,120 |
| 2007-08 | 44,438 | 57,645 | 40,727 | 20,847 | 22,274 | 5,561 | 39,660 |
| 2008-09 | 40,957 | 52,512 | 40,453 | 24,274 | 19,439 | 5,164 | 40,685 |
| 2009-10 | 45,667 | 52,156 | 40,417 | 24,574 | 22,633 | 4,337 | 31,597 |
| 2010-11 | 55,759 | 55,859 | 43,040 | 39,806 | 25,053 | 4,498 | 36,520 |
| 2011-12 | 81,409 | 59,190 | 43,982 | 49,075 | 26,642 | 5,018 | 30,488 |
| 2012-13 | 86,586 | 57,919 | 44,813 | 42,573 | 25,137 | 4,351 | 31,649 |
| 2013-14 | 90,722 | 59,347 | 47,979 | 42,038 | 24,604 | 3,629 | 20,655 |

Table 2: Frequency of RPT air services per week on each regulated route

| ROUTE (FROM/TO PERTH) | MINIMUM LEVEL OF RETURN SERVICES PER WEEK AS INITIALLY REQUIRED UNDER AIRLINE DEEDS/LICENCES | CURRENT LEVEL OF RETURN SERVICES PER WEEK (AS AT JULY 2015) | RPT PROVIDER |
|-----------------------------------|--|---|-------------------|
| Albany | 20 | 15* | VARA |
| Carnarvon | 10 | 10 | Skippers Aviation |
| Derby | 5 | 4 [#] | VARA |
| Esperance | 18 | 13* | VARA |
| Laverton (Northern Goldfields) | 3 | 3 | Skippers Aviation |
| Learmonth (Exmouth) | 3 | 12 | QantasLink |
| Leinster (Northern Goldfields) | 3 | 0 [^] | Skippers Aviation |
| Leonora (Northern Goldfields) | 3 | 4 | Skippers Aviation |
| Meekatharra (Northern Goldfields) | 3 | 3 | Skippers Aviation |
| Monkey Mia | 4 | 4 | Skippers Aviation |
| Mt Magnet (Northern Goldfields) | 3 | 3 | Skippers Aviation |
| Wiluna (Northern Goldfields) | 3 | 3 | Skippers Aviation |

* reduced since 5 December 2014

reduced since 13 March 2015

[^] suspended since 30 September 2013

PART 4

METHODOLOGY OF THE REVIEW

4.1 Overview

Overall, the Review has included the following activities:

- review of each regulated RPT route as part of WA's aviation network of RPT services;
- assessment of passenger numbers, aircraft type, load factors and average fares;
- assessment of the impact of charter air services in the context of the viability of RPT services and review of the State Government policy for charter operations within WA;
- consultation with regional 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
- consideration of risk, management, planning, and community and industry engagement 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.

The Review has included a route-by-route analysis using a mix of qualitative and quantitative data. The route recommendations in this report are based on comprehensive feedback received from community and stakeholder consultations, as well as various statistical data, as outlined below.

4.2 Position Paper

On 31 July 2014, as part of the Review of Regulated RPT Air Routes, the State Government released for public comment a Position Paper with recommendations for the future regulatory approach to RPT air routes. The three-month public consultation period closed on 31 October 2014, and submissions on the Position Paper, which have been treated as confidential, were encouraged from all sectors of the community and industry.

The State Government sought formal feedback from RPT air service providers, charter operators, airports, resource companies, Commonwealth, state and local government agencies, peak bodies, local community groups and individuals to ensure that their views and needs were well understood before the regulatory model for intrastate RPT air services beyond 2016 was established and implemented.

A total of 43 submissions were received, the breakdown of which is as follows:

- 7 local government shires/cities;
- 5 state government agencies;
- 6 mining companies;
- 5 RPT and charter airlines;
- 5 peak bodies;
- 3 regional chambers of commerce and industry;
- 1 Parliamentary party;
- 4 businesses; and
- 7 members of the general public.



4.3 Regional workshops

Following the public release of the Review's Position Paper on 31 July 2014, DoT undertook an extensive consultation process with regional stakeholders. In September 2014, DoT chaired separate workshops in Albany, Esperance, Carnarvon, Derby, Exmouth, and the Northern Goldfields to specifically discuss the proposed regulatory approach to the air route in each respective region. Invitations to the workshops were extended to the local shire/city, development commissions, chambers of commerce and industry, the Chamber of Minerals and Energy, mining companies and relevant tourism bodies. RPT and charter airlines were excluded from this consultation in an effort to foster open and frank discussions.

4.4 Aviation Community Consultation Group meetings

In addition to the specific regional workshops, the State Government undertook significant engagement with key stakeholders representing the local communities through the regional Aviation Community Consultation Group meetings. Members of these groups include representatives from the local shire/city, regional development commissions, regional chamber of commerce and industry, the Chamber of Minerals and Energy, mining companies and relevant tourism bodies.

In line with the current deed requirements, the Aviation Community Consultation Group meetings are held biannually for each particular air route and are chaired by DoT. The meetings aim to encourage and facilitate a direct customer/provider relationship whereby RPT users can discuss the current route performance, emerging issues and trends with the respective incumbent RPT airline, identify areas for potential improvement and propose options for long-term route development.

4.5 Individual stakeholder meetings

DoT also held quarterly one-on-one meetings with the incumbent RPT airlines to discuss their service performance on regulated routes and understand their commercial realities in relation to the long-term viability of RPT services. Consultation was also undertaken by DoT through extensive phone and electronic communication, as well as numerous face-to-face and teleconferenced meetings with RPT and charter airlines, local governments, mining companies, regional airports, and various government agencies, such as Tourism WA and CASA.

4.6 Surveys

To gain an insight into the characteristics of users on each route, passenger on-board flight surveys were conducted by DoT in collaboration with RPT airlines. The surveys were undertaken over two weeks (one week during school holidays and one week during non-school holiday periods) throughout July and August 2013. A total of 4500 surveys were distributed across 59 flights on the regulated routes, taking into account adequate sample sizes. Data from the surveys was particularly useful in identifying passengers' purpose for air travel, as well as in assessing the level of satisfaction with the RPT services.

4.7 Statistics

Various statistical data was used in the assessment of each route. This included monthly statistical reports provided by the incumbent RPT airlines to DoT, as well as data released by the Bureau of Infrastructure, Transport and Regional Economics (BITRE). Analysed data included passenger volumes, load factors (the ratio of actual passengers over seat capacity), on-time performance rates and average airfares.

PART 5 OVERVIEW OF ROUTE RECOMMENDATIONS

Table 3 provides a summary of the regulatory route recommendations beyond 2016:

- as proposed initially in the Review’s Position Paper; and
- as outlined in this document, that is, the final route recommendations derived by taking into consideration the feedback received in response to the Position Paper and also based on the various assessment tools described in part 4.

Table 3: Proposed and final route recommendations

| ROUTE (FROM/TO PERTH) | PROPOSED REGULATORY APPROACH BEYOND 2016 AS OUTLINED IN POSITION PAPER | FINAL RECOMMENDATION BEYOND FEBRUARY 2016 |
|--|--|--|
| Albany | → reduce regulation and open route to potential competition but ensure Government oversight of scheduling, pricing and community engagement if appropriate | → amended – regulate for up to five years and award rights to a single operator subject to a route review of airline performance |
| Derby | → flexibly regulate by allowing the potential entry of other airlines should there be a significant change in the region’s economic circumstances | → amended – regulate the Perth Derby (Curtin Airport and/or Derby General Aviation Airport) air route and award rights to a single RPT operator for up to five years subject to a route review of airline performance |
| Esperance | → reduce regulation and open route to potential competition but ensure Government oversight of scheduling, pricing and community engagement if appropriate | → amended – regulate for up to five years and award rights to a single operator subject to a route review of airline performance |
| Learmonth (Exmouth) | → fully deregulate | → amended – reduce regulation but maintain minimum Government oversight by allowing other airlines to enter the market and operate on the route at any time; and, for as long as the route is serviced by a sole operator, place conditions on the airline’s licence that requires the reporting key route statistics |
| Leinster | → discontinue Leinster as an RPT airport beyond 2016 or earlier | → no change |
| Monkey Mia–Carnarvon | → regulate | → no change – regulate for up to five years and award rights to a single operator subject to a route review of airline performance |
| Northern Goldfields (five airports) | → regulate either by maintaining the existing route connections or establishing new route configurations, direct or triangulated | → no change – award rights to a single operator subject to a route review of airline performance |
| Charter air services | → regulate charter operations on unregulated or regulated RPT routes including the placement of a special charter condition | → no change |

Part 6 provides details in regards to the final recommendations to the State Government for the regulatory approach to each currently protected air route in WA beyond February 2016.



Skippers Aviation Airfield, Perth Airport

PART 6 ROUTE-BY-ROUTE RECOMMENDATIONS

6.1 From Perth to Learmonth (Gascoyne region)

Demand profile

With a population of only 2200 people (ABS, 2011), the remote town of Exmouth is located nearly 1300 km north-west of Perth. RPT services between Perth and Exmouth continue to play a major economic, tourism and social role in the region. Demand for RPT services on the Perth–Learmonth route comes from both the oil and gas companies operating offshore from Exmouth and from the tourism market due to the region’s popular attractions including the Ningaloo Reef and national parks. While business travel occurs all year round, demand for air services from tourists/leisure travellers is strongly seasonal. There is low tourism demand in the summer months due to the very hot weather, while the tourism peak is during the whale shark migration season between April and July.

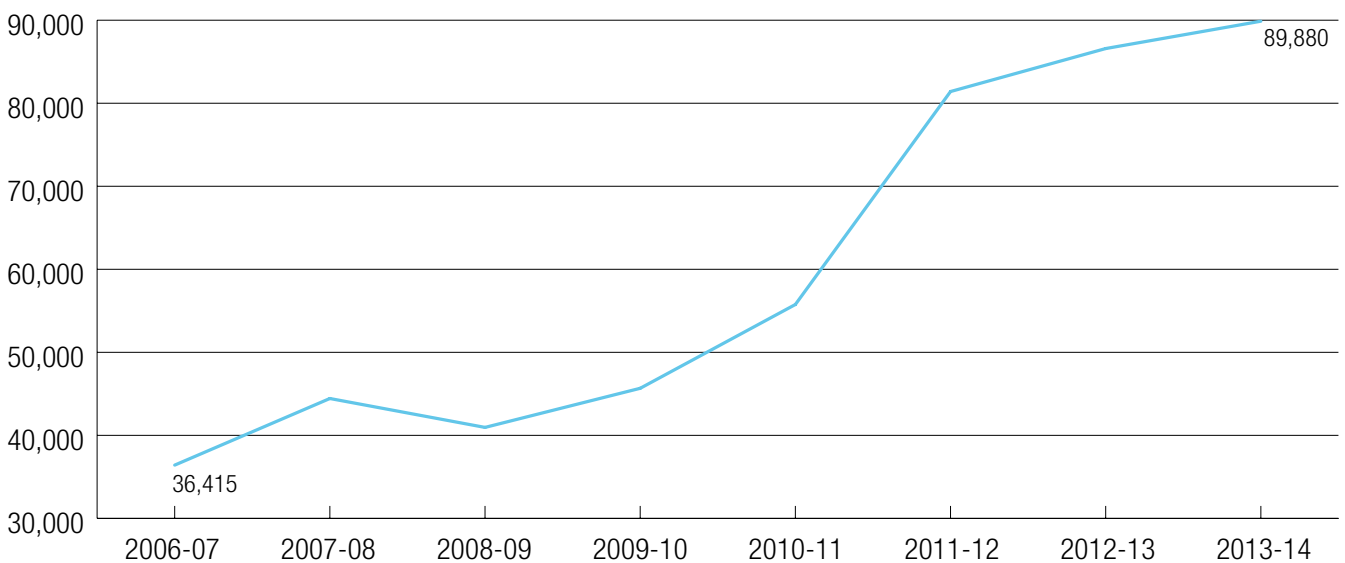
Table 4 and figure 2 provide a breakdown of the annual number of passengers on the route since 2006. Passenger movements on the route have

increased by nearly 150 per cent since 2006, reaching approximately 90,000 in 2013–14 and making it the highest volume route of all protected RPT routes in WA. This growth over the years has been largely due to increased business travel from a consortium of oil and gas companies in the region and the competitive fares offered to tourism/leisure passengers by two airlines.

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 |
| 2013–14 | 89,880 |
| <i>July Dec 2014 (half year)</i> | <i>40,781</i> |

Figure 2: Learmonth passenger movements



On-board flight surveys, with a sample size of approximately 600, were conducted on the route in 2013. The survey of Qantas and Virgin passengers revealed the following data:

- 47.6 per cent of surveyed travellers are Perth residents, 15.1 per cent are Exmouth residents and 37.3 per cent are from somewhere else;
- 73 per cent of the non-Perth and non-Exmouth residents come from other states in Australia;
- 42.9 per cent of all surveyed passengers using the RPT services travel for business purposes – of these 31.3 per cent are FIFO workers from the resources sector;
- 44.8 per cent of all surveyed passengers travel for holiday and leisure purposes;
- 6.8 per cent of all surveyed passengers fly to visit friends and relatives;
- 48.2 per cent of surveyed Perth residents travel to Exmouth for work purposes;
- 47.1 per cent of surveyed Perth residents fly to Exmouth to holiday; and
- 37.5 per cent of surveyed passengers living in Exmouth use the RPT air services for medical reasons – this indicates that flights are a necessity for the regional community and an important service for people's welfare.

It should be noted that the surveys were conducted during the peak tourism season and therefore the proportion of leisure travellers on the Perth–Learmonth route is likely to be higher than at other times during the year.

Services profile

RPT services between Perth and Exmouth are currently provided to the airport located at the nearby Learmonth Royal Australian Air Force (RAAF) base, approximately 36 km from Exmouth's town centre. The Learmonth Airport, which is operated by the Commonwealth Department of Defence, is jointly used as a RAAF and civil airport and can accommodate a variety of aircraft. The Exmouth General Aviation (GA) Aerodrome located approximately 10 km from the town centre, currently does not accommodate RPT operations and predominantly services general aviation aircraft and helicopter maintenance bases.

*Perth Airport morning departure
Source: Network Aviation*



For approximately three-and-a-half years (March 2011 to October 2014) the Perth–Learmonth route was serviced by QantasLink, a subsidiary of the Qantas Group, and Virgin Australia Regional Airlines (VARA, which acquired Skywest Airlines). Both airlines operated in direct competition in a partially deregulated environment. During that period the Perth–Learmonth route received a total of 15 direct RPT flights per week from the two airlines, providing the local community with access to an RPT air service every day of the week. Of the 15 weekly flights, 12 RPT services were provided by QantasLink, accommodating demand from both the business (oil/gas) and tourism markets, while VARA provided the remaining 3 RPT services, mostly for the leisure market.

Since 13 October 2014, the number of services has reduced from 15 to 12 flights per week following VARA's withdrawal from the Perth–Learmonth route. VARA advised the State Government that providing RPT services on the route was no longer commercially viable. This has left the Exmouth community with access to a single airline – QantasLink.

The 12 RPT services are currently provided by QantasLink and its subsidiary Network Aviation under a codeshare agreement. The primary aircraft used on the route are Fokker 100 jets, Boeing 717 and Boeing 737 jets with a capacity of 100, 125 and 168 seats respectively. Compared to planes used on most other regulated routes in WA, these aircraft have a high seat capacity and high speed. The one-way flight takes less than two hours and is a ready substitute to the 14 hour drive between Perth and Exmouth for many travellers.

Regulatory considerations

The proposed regulatory approach outlined in the Review's Position Paper was to:

"Fully deregulate the Perth–Learmonth (Exmouth) air route beyond 27 February 2016."

As part of the consultation process, formal feedback was received from regional stakeholders' submissions in response to the Review's Position Paper, as well as face-to-face discussions held at the Exmouth workshop in September 2014. The feedback regarding the future regulatory approach to the Perth–Learmonth route has been relatively consistent and is outlined below.

With over 90,000 passengers per year, the Perth–Learmonth route is the busiest regulated route in WA. The current passenger demand on the route, derived almost equally from the corporate and tourism/leisure markets, is robust. Thus, some stakeholders suggest that the State Government should allow the entry of a second RPT operator on the Perth–Learmonth route beyond 2016 or earlier.

In terms of annual passenger movements, the Perth–Learmonth route can be compared to the Perth–Geraldton route, which was fully deregulated in 2011 when the annual passenger volume was approximately 100,000. Open competition on the Perth–Geraldton route has proved positive for Western Australians, resulting in a greater airline choice for consumers, an increase in flight frequency, an increase in passenger numbers to approximately 130,000 in 2013–14 and competitive airfares. In this context, there may be an opportunity in the future for demand on the Perth–Learmonth route again to be met by two operators.

Experience in other states across Australia indicates that routes with fewer than 100,000 passengers per year are unlikely to have two operators. In New South Wales, only regional air routes with annual demand of over 100,000 passengers attract two or more operators. For example, Sydney–Armidale (with 114,380 passengers in 2013–14) and Sydney–Dubbo (with 181,500 passengers in 2013–14) are currently serviced by two airlines – Qantas and REX (Transport for NSW, 2014).

There is a widely-shared concern among the Exmouth community and other stakeholders that in an unregulated environment, with RPT services being provided by a single operator, airfares are likely to increase. Furthermore, this concern from the Exmouth community is understandably strong given that the incumbent RPT airline has significant market power due to its contracts with the major oil and gas companies in the region.

The incumbent airline's current market power through its oil and gas contracts reduces the competitive pressure from other airlines potentially wanting to enter the route. Competition is more likely to be sustained if the corporate market (oil and gas clients offshore from Exmouth) is shared relatively equally between two airlines. Otherwise, the single airline may operate in a monopolistic manner, take market advantage and charge higher airfares. Thus, it is appropriate for the State Government to closely monitor the Exmouth route.

The average airfares on the Perth–Learmonth route over the last three years have been competitive and welcomed by local residents, businesses and leisure travellers. The competitive fares can be attributed to increased passenger demand and the previous head-to-head competition by two airlines in a partially deregulated environment. Off-peak periods have seen one-way airfares falling to as low as \$99 including all taxes and charges over a limited time. While in many cases the oil and gas FIFO users of the RPT services do not pay their own fare, leisure travellers are more sensitive to changes in price. Given Exmouth's tourism characteristics, maintaining competitive airfares on the Perth–Learmonth route in an unregulated monopoly market is imperative for the region's economic and social development.

Another concern for the Exmouth community is that in the current economic conditions the oil and gas companies operating in the region and using the RPT services to Exmouth may look to reduce operational costs by potentially relocating air operations from Exmouth to the nearby town of Onslow. The Onslow Airport was recently upgraded, including the installation of security screening facilities, and has been receiving unregulated RPT air services since 17 November 2014.

If oil and gas traffic shifts to Onslow, or possibly to Karratha, demand for Exmouth RPT services from the resources sector will reduce considerably. Without the significant size of this corporate market (resources clients) the Exmouth RPT services would be less frequent and/or provided in smaller aircraft. Learmonth Airport needs to maintain competitive airport fees and charges in order to remain the preferred RPT airport for oil and gas companies.

Feedback received from stakeholders also highlights the risk of a diminished flight schedule resulting from an unregulated monopoly environment post 2016. Such a risk could see a schedule with fewer flights on the route or unsuitable flight departure times. There is also a risk of 'cherry picking' by the monopoly airline, which can result in a reduced number of RPT flights during the low demand season in summer. However, in a broader context, summer flight schedules are provided on other RPT routes in WA despite reduced demand. In these circumstances, a mutual benefit for all parties can be reached if the sole RPT airline proactively engages with the community on a regular basis to ensure an adequate flight schedule is provided on the route. Engagement will be equally important with regard to the provision of adequate aircraft seat capacity, so that potential increases in business travel do not crowd out the leisure tourism market. Demand for air services on the Perth–Learmonth route in the future will be driven by the forces of the business, tourism and community markets.

Concerns have also been expressed that RPT flights may gradually or suddenly reduce in favour of closed charter air services used by oil and gas FIFO passengers. It should be noted that the State Government regulates closed charter services on RPT routes to ensure the charter services do not detract from the viability of RPT services. More specifically, regulation of closed charter services will apply to the township of Exmouth as a whole, including Exmouth GA Aerodrome and not merely to Learmonth Airport. Part 7 provides details on closed charter operations.

Given the current level of passenger demand for RPT services on the Perth–Learmonth route there is no reason to prohibit the possible entry of a second RPT operator on the route in the future. It may however be the case that the current circumstance of a single provider on the route continues. Therefore, the most appropriate regulatory

approach to the Perth–Learmonth route is to open the route to competition beyond 2016, but with the safety net of minimal regulation in order to prevent market failure.

Minimal regulation means that, for as long as the Perth–Learmonth route is serviced by a sole operator, the State Government will place certain conditions on the airline's licence. The licence conditions will require the monopoly airline to provide monthly key route data such as statistics on average airfares, passenger numbers and on-time performance rates, through which the State Government will monitor the route to ensure adequate RPT air services are provided.

The State Government will also encourage the RPT airline to undertake regular consultation with the community and other stakeholders to ensure their needs are met and that any concerns that arise are addressed. The Department of Transport may participate at such community engagement events as required. To ensure robust community engagement, some stakeholders have indicated the importance of providing key route statistics such as average airfares, on-time performance rates and passenger numbers. Thus, as a sole provider of services, the airline may be required, as part of its licence conditions, to report on some route information such as average airfares, on-time performance rates and passenger numbers over certain periods. The State Government may, at its discretion, decide to amend or revoke any licence conditions for the reporting of route statistics if and when a second operator enters the market.

Some submissions on the Review's Position Paper have suggested that Exmouth can be a future hub for RPT air services that provides additional linkages to other ports in the region, such as Broome, Carnarvon, Karratha, Monkey Mia, Onslow, Paraburdoo and Port Hedland. Stakeholders' views on such networks of flights are somewhat mixed. On the one hand, travel by larger jet planes is preferred by most communities; while on the other hand, 'milk runs' via smaller airports that cannot accommodate jet operations are not feasible.

It should be noted that except for Carnarvon and Monkey Mia, all the other airports mentioned above are unregulated and therefore outside of this report's scope. However, the State Government recognises the economic and social benefits in flight connectivity and will take this into consideration in any future tendering of regulated air routes if required.

Way forward

In summary, the current demand for RPT services on the Perth–Learmonth route is robust and may attract a second RPT airline. Allowing a second airline on the Perth–Learmonth route at any time beyond February 2016 can foster future airline competition. However, until such time as another operator enters the route, to ensure the sole operator does not behave in a manner that is not in the best interests of the community in terms of affordability and reliability of air services, minimal regulation is required.

To minimise any potential threats of market failure (that is air services become inadequate) the State Government will closely monitor the Perth–Learmonth route. The State Government will maintain key route statistics by placing conditions on the licence of the sole airline that require public reporting of average airfares, passenger numbers and on-time performance rates. In addition, the State Government will encourage the incumbent airline to engage directly with regional communities and stakeholders (DoT can also participate in any engagement as required).

Highlights

- Located on the north-west coastline of WA, Exmouth is a small, remote town with strong oil and gas, as well as tourism, industries. Tourism/leisure demand for RPT services is seasonal.
- With over 90,000 passengers per year, Perth–Learmonth is WA's busiest regulated air route. VARA's withdrawal of RPT air services on the Perth–Learmonth route has led to a sole airline operating on the route. Although it is uncertain whether there will be competition on the Perth–Learmonth route beyond 2016, the current passenger demand is robust and may attract a second operator.
- The most appropriate regulatory approach to the Perth–Learmonth route is to open the route to competition beyond 2016, but with the safety net of minimal regulation in the form of certain conditions being placed on the sole operating airline's licence until such time as another airline enters the route in order to prevent market failure.

Final recommendation

Reduce regulation on the Perth–Learmonth air route beyond 27 February 2016, whereby the State Government will:

- allow other airlines to enter the market and operate on the route at any time; and
- for as long as the route is serviced by a sole operator, place conditions on the airline's licence that requires the reporting of key route statistics.

Learmonth Airport
Source: Shire of Exmouth





Albany Airport
Source: City of Albany

6.2 From Perth to Albany (Great Southern region)

Demand profile

Located 409 km south-east of Perth, the city of Albany has a considerable population of more than 36,000 people (ABS, cited in DRD, 2013). The Albany region is renowned for its agricultural activities and with its picturesque coastline and Anzac history and memorials it offers various leisure attractions for tourists. While Albany is not generally considered a remote town, residents, business travellers and visitors to the region benefit from the RPT flights between Perth and Albany.

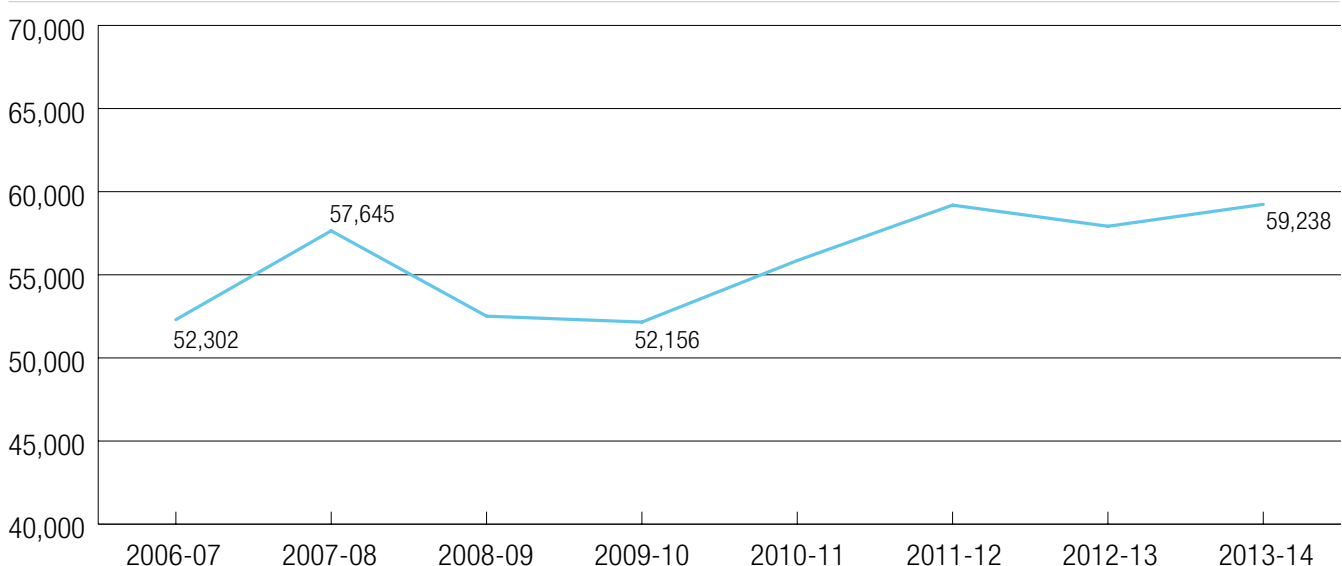
Table 5 and figure 3 provide a breakdown of the annual number of passengers on the route since 2006. Over this same period, the Perth–Albany air route has grown by 13.5 per cent, while the population has increased by 9.31 per cent (ABS, cited in DRD, 2013). Reaching a peak of nearly 60,000 passenger movements in 2013–14,

Perth–Albany is the second busiest regulated air route in WA (after the Perth–Learmonth route, which has approximately 90,000 passenger movements per year).

Table 5: 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 |
| 2013–14 | 59,238 |
| July Dec 2014 (half year) | 31,048 |

Figure 3: Albany passenger movements



On-board flight surveys, with a sample size of approximately 200, were conducted on the route in 2013. The surveys revealed the following data from users of the RPT services:

- 68.8 per cent of all surveyed travellers are Albany residents, 21.6 per cent are Perth residents and 9.5 per cent are from somewhere else;
- 73.9 per cent of the surveyed non-Perth and non-Albany residents come from other regions throughout WA;
- 62.2 per cent of all surveyed passengers travel for business purposes;
- 11.4 per cent of all surveyed passengers use the RPT flights to visit friends and relatives;
- 11.9 per cent of all surveyed passengers use the RPT flights for holiday or leisure purposes;
- 83.7 per cent of surveyed Perth residents travel to Albany for work purposes;
- 4.7 per cent of surveyed Perth residents fly to Albany to holiday – this indicates that current air services barely bring any tourists to Albany; and
- 21.2 per cent of surveyed passengers living in Albany use the RPT flights for medical reasons.

A key characteristic of the Perth–Albany route is that current demand for RPT services predominantly comes from the business market, and very few tourists fly from Perth to Albany at any time of the year. Furthermore, as corporate travellers using the RPT services reduce their business activities over the summer season, it has been evident that demand consistently declines during December and January each year. This drop in demand over the summer period has necessitated the implementation of a summer flight schedule with a reduced number of services (approximately half) since 2012.

Services profile

The Perth–Albany route was serviced by Skywest Airlines, as the sole RPT operator, between March 2011 and April 2013. Following the acquisition of Skywest by Virgin Australia, the route has been serviced by Virgin Australia Regional Airlines (VARA) since May 2013. The primary aircraft used on the route is a Fokker 50 turboprop with a capacity of 46 seats.

The one-way RPT flight between Perth and Albany takes less than an hour compared to the 4.5 hours (approximately) it takes to make the journey by car. In this context, road transport is a reasonable substitute for flights as travellers can readily trade-off between high airfares and travel duration. In addition, prospective travellers can also decide to use the TransWA bus services between Perth and Albany that operate multiple times per week (TransWA, 2014).

For nearly four years (February 2011 to November 2014) the Perth–Albany route had been receiving a total of 20 return RPT services per week, with two of these services provided via Busselton. However, VARA advised the State Government in mid-2014 that providing 20 RPT services per week was no longer commercially viable and that the removal of five weekly services was essential to ensure the route's long-term sustainability. Through a reduced number of weekly services the load factor (the ratio of actual number of passengers on the plane over seat capacity) on the route can increase, resulting in greater operational efficiency for the airline.

Following extensive negotiations with the airline, the State Government approved VARA's request for a schedule with fewer flights. Since 5 December 2014, VARA reduced the flight frequency on the Perth–Albany route from 20 to 15 RPT services per week, all of which are now direct and not triangulated via Busselton. The Perth–Busselton route is not regulated and therefore is not discussed in detail within this report.

While any loss of services is undesirable from a regional community's viewpoint, the removal of five air services on the Perth–Albany route needs to be considered in a broader context. The aviation industry environment has been difficult in recent times, with Virgin Australia and Qantas posting losses of \$355.6 million and \$2.8 billion respectively in 2013–14. This has had an impact on national, interstate and intrastate markets that are also suffering from softening demand.



Regulatory considerations

The proposed regulatory approach outlined in the Review's Position Paper was to:

“Reduce regulation on the Perth–Albany air route beyond 27 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”.

As part of the consultation process, formal feedback was received from regional stakeholders' submissions in response to the Review's Position Paper, as well as face-to-face discussions held at the Albany workshop in September 2014. The feedback regarding the future regulatory approach to the Perth–Albany route has been mixed.

With approximately 60,000 passengers per year, there is a broad consensus that demand on the Perth–Albany route is relatively robust, and a certain level of RPT air services would continue to be viable even in an unregulated environment. However, some stakeholders believe that allowing airline competition on the Perth–Albany route should only be considered once the market size reaches at least 80,000 passengers per year.

Experience in other states across Australia indicates that routes with fewer than 100,000 passengers per year are unlikely to have two operators. In New South Wales, only regional air routes with annual demand of over 100,000 passengers attract two or more operators. For example, Sydney–Armidale (with 114,380 passengers in 2013–14) and Sydney–Dubbo (with 181,500 passengers in 2013–14) are currently serviced by two airlines – Qantas and REX (Transport for NSW, 2014).

In this context, the current demand of approximately 60,000 passengers per year on the Perth–Albany route is insufficient for two operators. Some airlines have also indicated that unless the Perth–Albany route is regulated they are not willing to expend their resources and operate on a route that has had relatively slow and inconsistent growth and that may not be particularly profitable.

The addition of another airline on the route should only be considered when there is clear evidence that passenger demand is sufficient to sustain airline competition. Consideration of the option to open the route to competition in the future will need to be based on a 'trigger point', for example the demand volume approaching approximately 100,000 passenger movements or when significant social and economic changes occur in the region (such as fast population growth). Demand on the Perth–Albany route is unlikely to reach 100,000 passengers per annum over the next few years.

In a regulated environment airlines need to be able to provide an adequate seat capacity in order to grow the route. The Albany Airport can accommodate the landing of larger aircraft such as Fokker 100 in addition to the Fokker 50 planes currently used on the route. The Albany community and businesses have indicated concerns that some flights are fully booked and people cannot fly at all on these days. Similarly, on some flights only a limited number of seats are available and these are at the highest level of airfare, which deters people from flying. Booking weeks or months in advance may not always be possible, especially when travelling for medical purposes. In both cases, the lack of seat availability may lead to a downward spiral in passenger demand.

Some community members and stakeholders believe that the Perth–Albany route should be fully deregulated beyond 2016, whereby a competitive environment could potentially lead to lower prices. However, if demand is sufficient for one operator only, there is a risk in an unregulated environment that a single airline may operate in a monopolistic manner, take market advantage and charge higher airfares. Government oversight of the Perth–Albany route can reduce the likelihood of monopolistic behaviour.

Airlines highlight that costs decline as route distances increase, that is, the cost per kilometre on shorter routes is higher compared to long-distance routes. From a cost of operations viewpoint, this situation is made more difficult by the relatively low demand on the route. This is perhaps one reason why airfares on the Perth–Albany route are amongst the highest regional airfares in Australia based on cost per kilometre. The average one-way fare on the Perth–Albany route is similar to the one-way

flight on the Perth–Learmonth (Exmouth) route despite the latter having a route distance that is approximately three times that of the Perth–Albany route.

In respect of airfares on the Perth–Albany route, it is noteworthy that business travellers, who are the predominant users of the RPT services, are less responsive to changes in price than leisure travellers and in many cases they do not pay their own fare. Submissions on the Review’s Position Paper indicate community concern that airfares on the Perth–Albany route in general are high and inhibit route development. While concession airfares for local residents, students and the elderly are currently available on the route, discounted fares are rather limited.

The high airfares are also at least partially attributable to the high airport fees, taxes and security charges. From an airport management viewpoint, these taxes and charges are associated with high fixed and labour costs. Given the mandatory airport taxes and charges, this constrains, to some degree, an airline’s price flexibility and they have no option but to pass these costs onto passengers. Nevertheless, it is worth noting that the average one-way airfare, including all taxes and charges, on the Perth–Albany route decreased from \$233 in 2012–13 to \$212 in 2013–14. Some airfares offered on the route over a limited time in 2015 fell to \$135.

High airfares are likely to inhibit tourism in the region. Tourism bodies, community representatives and stakeholders have highlighted the importance of lower fares to develop the tourism and leisure market on the Perth–Albany route. Airlines have highlighted the importance of a multi-faceted approach to developing the tourism market in Albany beyond just lower fares.

Given the region’s diversity of tourism activities, there is a shared view among stakeholders that various holiday packages offering good value for money for customers should be actively promoted in order to stimulate leisure travel. These packages can be mutually beneficial for all business and tourism operators, as well as travellers. For example, holiday packages can include all-in-one or combinations of airfare, accommodation, car hire, tours, and museum or other attraction entry, such as to the recently opened National Anzac Centre. From the State Government’s perspective, establishing Albany

as an Anzac pilgrimage destination is a desired outcome. Connecting Albany’s air services to interstate and international leisure markets can support this goal. Wider awareness of the region’s tourism activities in the future can generate increased patronage and boost the city’s business opportunities. Tourism WA and other tourism bodies, such as Australia South West, will be key players in promoting Albany and its surrounds.

Regional stakeholders have also expressed concerns that in a regulated monopoly environment, the incumbent operator might be disinclined to grow the Perth–Albany route to a demand level approximating 100,000—a level that may warrant the introduction of competition on the route. However, a dramatic increase in demand to that level is unlikely to occur in the near future given the slow increase in demand on the route over recent years.

It is generally agreed that a multi-faceted approach and strong collaboration by all parties is required in order to increase demand on regional routes. Through collaboration by all parties, a variety of initiatives can be identified to better meet the needs of business and leisure travellers while also taking into account the commercial realities for airlines. In other words, apart from efforts by the airline alone to develop the route, key stakeholders must also demonstrate a collaborative approach and directly engage with the airline to generate incremental demand on the route. For example, the City of Albany, as the owner and operator of the Albany Airport, has already considered reducing or waiving its airport fees for flights that are part of holiday packages in order to contribute to tourism growth.

The State Government, through the Department of Transport, will continue to chair the Albany Aviation Community Consultation Group meetings with the airline and regional stakeholders and assist by facilitating discussions on route development. However, greater and regular engagement between the airline, community representatives, local businesses and tourism operators will be crucial in achieving the best outcomes for the route. In this context of long term sustainability of the route some stakeholders have indicated the importance of providing key route statistics such as average airfares, on time performance rates, and passenger numbers over certain periods.

Way forward

It is recommended that the Perth–Albany route be regulated for up to five years beyond February 2016. In the interest of accountability, fairness, equity and transparency, the route will be subject to a competitive tender process in 2015 through which a single airline will be appointed under an agreement with the State Government to serve the RPT route for up to five years.

The request for tender document will seek tenders from airlines for the provision of RPT air services between Perth and Albany that best meet the community needs and level of demand. In addition, taking into account the feedback from the Albany community, bidding airlines will need to demonstrate their commitment to developing the route.

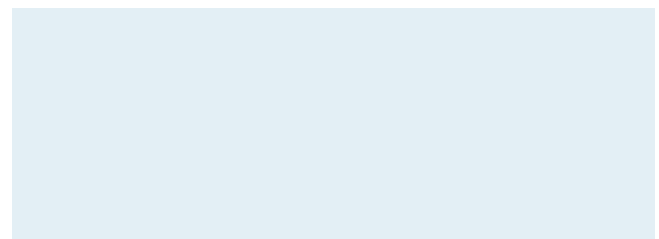
Consistent with current regulatory arrangements, the ensuing agreement between the State Government and the successful airline will see a capped airfare, a fixed schedule of air services, and a benchmark for on-time performance set. This means that should the airline operating the route wish to vary any of these parameters, it will need to seek the approval of the State Government to do so.

Under the conditions of the future airline agreement, a review of airline performance will be undertaken after two years (mid-term review). If the performance of the airline at that time is considered to be meeting requirements—in terms of frequency, reliability (on-time performance), affordability of air services (average fares), customer engagement and route development of tourism/business/other markets—then the airline can continue as the sole operator on the route until the end of the five-year term. The possibility for extension of monopoly rights would provide an incentive for the airline to build new markets and grow the route. If, however, the mid-term review determines that the level of performance is not satisfactory, then the route could be re-tendered.

It should also be noted that if, at any time during the term of the agreement, there are significant economic and/or social changes in the Albany region and the Perth–Albany route has grown to a level that can sustain competition (approximately 100,000 passengers per year), then the State Government may, at its discretion, allow a second RPT operator on the route.

Highlights

- With approximately 60,000 passengers per year, current demand on the Perth–Albany route is sufficient for one operator only. Experience in other states across Australia suggests that routes with demand of less than 100,000 passengers per year are unlikely to sustain two operators.
- The predominant users of the RPT services on the Perth–Albany route are business travellers. Stakeholders believe that there is a need to develop the leisure market for the route. High airfares detract from enhanced local tourism and business opportunities.
- Direct and strong engagement between the airline and the community, local businesses and tourism operators on a regular basis in the future will be essential in identifying how to better meet the needs of business and leisure travellers and grow the route.
- Should significant economic and/or social changes occur or demand volume reach approximately 100,000 passengers per year in the future, the State Government may allow new airlines to enter the route.



6.3 From Perth to Esperance (Goldfields–Esperance region)

Demand profile

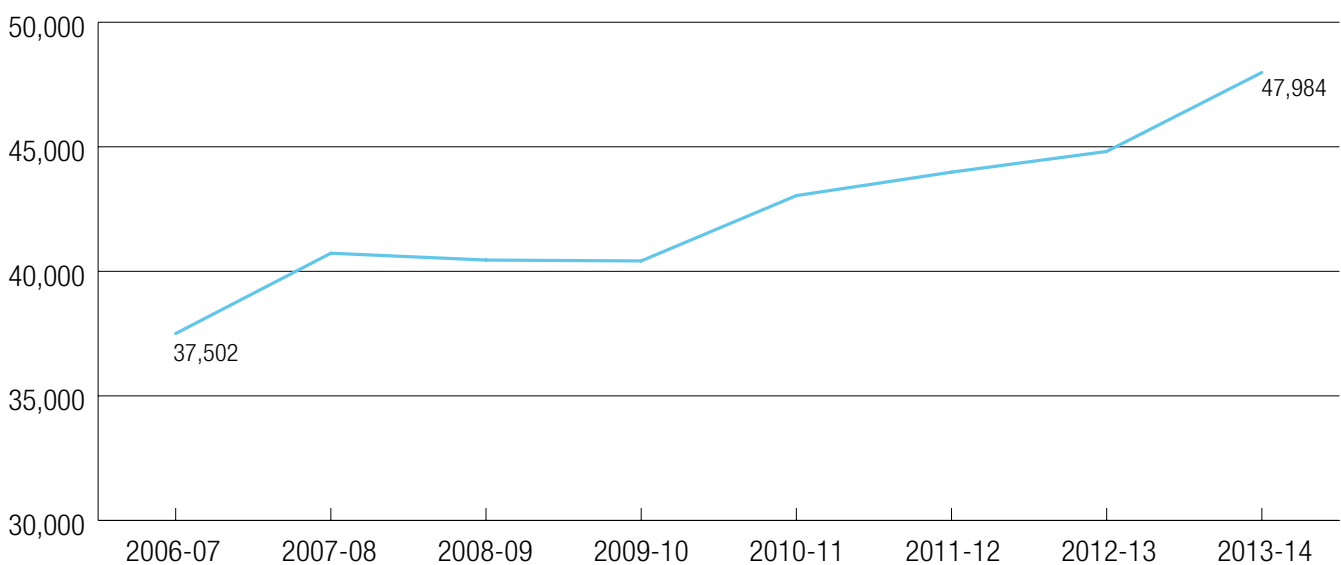
With a population of approximately 14,000 (ABS, cited in DRD, 2013), Esperance is located approximately 720 km south-east of Perth and in close proximity of a beautiful long coastline and various national parks. The considerable distance from Perth makes Esperance a remote town. Accessible and adequate air services are therefore essential for community members and visitors, and play a fundamental role in the economic and social development of the region.

Table 6 and figure 4 provide a breakdown of the annual number of passengers on the route since 2006. Over this same period the Perth–Esperance air route has grown by nearly 28 per cent, while the population has grown by 4.3 per cent (ABS, cited in DRD, 2013). Reaching a peak of nearly 48,000 passenger movements in 2013–14, Perth–Esperance is one of the busiest regulated air routes in WA.

Table 6: 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 |
| 2013–14 | 47,984 |
| <i>July Dec 2014 (half year)</i> | <i>25,690</i> |

Figure 4: Esperance passenger movements



On-board flight surveys, with a sample size of approximately 220, were conducted on the route in 2013. The surveys revealed the following data from users of the RPT services:

- 41.9 per cent of surveyed travellers are Perth residents, 37.8 per cent are Esperance residents and 20.3 per cent are from elsewhere;
- 52.6 per cent of the surveyed non-Perth and non-Esperance residents come from other regions throughout WA;
- 68.2 per cent of all surveyed passengers travel for business purposes;
- 11.6 per cent of all surveyed passengers use the RPT flights to visit friends and relatives;
- 12.1 per cent of all surveyed passengers use the RPT flights for holiday or leisure purposes;
- 87.5 per cent of surveyed Perth residents travel to Esperance for work purposes;
- 4.2 per cent of surveyed Perth residents fly to Esperance to holiday—this indicates that current air services barely bring any tourists to Esperance; and
- 15.4 per cent of surveyed passengers living in Esperance use the RPT flights for medical reasons.

A key characteristic of the Perth–Esperance route is that demand for RPT services predominantly comes from the business market. Some of this business demand is from the resources sector and is mostly associated with the mining activities around Ravensthorpe, which is located approximately 190 km from Esperance.

Very few tourists fly from Perth to Esperance at any time of the year. As corporate travellers using the RPT services reduce their business activities over the summer season, demand consistently declines during December and January each year. This drop in demand over the summer period has necessitated the implementation of a summer flight schedule with a reduced number of services (approximately half) since 2012.

Services profile

The Perth–Esperance route was serviced by Skywest Airlines, as the sole RPT operator, between March 2011 and April 2013. Following the acquisition of Skywest by Virgin Australia, the route has been serviced by Virgin Australia Regional Airlines (VARA) since May 2013. The primary aircraft used on the route is a Fokker 50 turboprop with a capacity of 46 seats.

The one-way RPT flight between Perth and Esperance takes less than two hours compared to the seven hours (approximately) that it takes to make the journey by car. In this context, road transport can be a substitute for flights as travellers can trade-off between the cost of an airfare and the cost of time when travelling by car. In addition, prospective travellers can also decide to use the TransWA bus services between Perth and Esperance that operate six times per week and cost approximately \$90 each way (TransWA, 2014). However, the RPT flights are a faster and preferred alternative for many residents, business travellers and tourists.

For nearly four years (February 2011 to November 2014) the Perth–Esperance route had been receiving a total of 18 return RPT services per week, with two of these services provided via Ravensthorpe. In addition to this, one direct RPT service per week had been provided between Perth and Ravensthorpe. However, VARA advised the State Government in mid-2014 that providing 18 RPT services per week was no longer commercially viable and that the removal of five weekly services was essential to ensure the route's long-term sustainability. Through a reduced number of weekly services the load factor (the ratio of actual number of passengers on the plane over seat capacity) on the route can increase, resulting in greater operational efficiency for the airline.

Following extensive negotiations with the airline, the State Government approved VARA's request for a schedule with fewer flights. Since 5 December 2014, VARA reduced the flight frequency on the Perth–Esperance route from 18 to 13 RPT services per week. Two of the 13 services are triangulated via Ravensthorpe. The town of Ravensthorpe is some 540 km south-east of Perth and 190 km north-west of Esperance. The Perth–Ravensthorpe route is not regulated and therefore is not discussed in detail within this report.

While any loss of services is undesirable from a regional community's viewpoint, the removal of five air services on the Perth–Esperance route needs to be considered in a broader context. The aviation industry environment has been difficult in recent times, with Virgin Australia and Qantas posting losses of \$355.6 million and \$2.8 billion respectively in 2013–14. This has had an impact on national, interstate and intrastate markets that are also suffering from softening demand.

Regulatory considerations

The proposed regulatory approach outlined in the Review's Position Paper was to:

“Reduce regulation on the Perth–Esperance air route beyond 27 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”.

As part of the consultation process, formal feedback was received from regional stakeholders' submissions in response to the Review's Position Paper, as well as face-to-face discussions held at the Esperance workshop in September 2014. The feedback regarding the future regulatory approach to the Perth–Esperance route has been mixed.

With approximately 48,000 passengers per year, there is a broad consensus that demand on the Perth–Esperance route is relatively robust, and a certain level of RPT air services would continue to be viable even in an unregulated environment. However, some stakeholders believe that allowing airline competition on the Perth–Esperance route should only be considered once the market size reaches at least 80,000 passengers per year.

Experience in other states across Australia indicates that routes with fewer than 100,000 passengers per year are unlikely to have two operators. In New South Wales, only regional air routes with annual demand of over 100,000 passengers attract two or more operators. For example, Sydney–Armidale (with 114,380 passengers in 2013–14) and Sydney–Dubbo (with 181,500 passengers in 2013–) are currently serviced by two airlines—Qantas and REX (Transport for NSW, 2014).

In this context, the current demand of approximately 48,000 passengers per year on the Perth–Esperance route is insufficient for two operators. Some airlines have also indicated that unless the Perth–Esperance route is regulated they are not willing to expend their resources and operate on a route that has had relatively slow and inconsistent growth and that may not be particularly profitable.

The addition of another airline on the route should only be considered when there is clear evidence that passenger demand is sufficient to sustain airline competition. Consideration of the option to open the route to competition in the future will

need to be based on a 'trigger point', for example the demand volume approaching approximately 100,000 passenger movements or when significant social and economic changes occur in the region (such as fast population growth). Passenger demand on the Perth–Esperance route is unlikely to double in the next few years.

Some community members and stakeholders believe that the Perth–Esperance route should be fully deregulated beyond 2016, whereby a competitive environment could potentially lead to lower prices. However, if demand is sufficient for one operator only, there is a risk in an unregulated environment that a single airline may operate in a monopolistic manner, take market advantage and charge higher airfares. Government oversight of the Perth–Esperance route can reduce the likelihood of monopolistic behaviour.

Airlines highlight that costs decline as route distances increase, that is, the cost per kilometre on shorter routes is higher compared to long-distance routes. From a cost of operations viewpoint, this situation is made more difficult by the relatively low demand on the route. This is perhaps one reason why airfares on the Perth–Esperance route are amongst the highest regional airfares in Australia based on cost per kilometre.

In respect of airfares on the Perth–Esperance route, it is noteworthy that business travellers, who are the predominant users of the RPT services, are less responsive to changes in price than leisure travellers, and in many cases business travellers do not pay their own fare. The average one-way fare on the Perth–Esperance route is broadly comparable to the average fare for a one-way flight between Perth and Kalgoorlie. The latter route is of a similar distance (Kalgoorlie is approximately 600 km east of Perth), and the predominant user of the RPT air services is the corporate market due to the high level of mining activities in the area. The Perth–Kalgoorlie route is not regulated and in 2013–14 carried approximately 237,400 passengers across the more than 30 RPT services that operate per week.

Submissions on the Review's Position Paper indicate community concern that airfares on the Perth–Esperance route in general are high and inhibit route development. While concession airfares for local residents, students and the elderly are currently available on the route, discounted fares are rather limited.

The high airfares are also at least partially attributable to the high airport fees, taxes and security charges. From an airport management viewpoint, these taxes and charges are associated with high fixed and labour costs. Given the mandatory airport taxes and charges, this constrains, to some degree, an airline's price flexibility and they have no option but to pass these costs onto passengers. Nevertheless, it is worth noting that the average one-way airfare, including all taxes and charges, on the Perth–Esperance route decreased from \$284 in 2012–13 to \$230 in 2013–14. Some airfares offered on the route over a limited time in 2015 fell to \$125.

High airfares are likely to inhibit tourism in the region. Tourism bodies, community representatives and stakeholders have highlighted the importance of lower fares to develop the tourism and leisure market on the Perth–Esperance route. Airlines have highlighted the importance of a multi-faceted approach to developing the tourism market in Esperance beyond just lower fares.

Given the region's diversity of tourism activities, there is a shared view among stakeholders that various holiday packages offering good value for money for customers should be actively promoted in order to stimulate leisure travel. These packages can be mutually beneficial for all business and tourism operators, as well as travellers. For example, holiday packages can include all-in-one or combinations of airfare, accommodation, car hire, tours, and other services or attractions. Connecting Esperance's air services with interstate and international leisure markets can also attract visitors. Wider awareness of the region's tourism activities in the future can increase the potential for greater air traffic and boost the city's business opportunities. Tourism WA and other tourism bodies, such as Australia's Golden Outback, will be key players in promoting Esperance and its surrounds.

Regional stakeholders have also expressed concerns that in a regulated monopoly environment, the incumbent operator might be disinclined to grow the Perth–Esperance route to a demand level approximating 100,000 – a level that may warrant the introduction of competition. However, a dramatic increase in demand to that level is unlikely to occur in the near future given the slow increase in demand on the route over recent years.

It is generally agreed that a multi-faceted approach and strong collaboration by all parties is required in order to increase demand on regional routes. Through collaboration by all parties, a variety of initiatives can be identified to better meet the needs of business and leisure travellers while also taking into account the commercial realities for airlines. In other words, apart from efforts by the airline alone to develop the route, key stakeholders must also demonstrate a collaborative approach and directly engage with the airline to generate incremental demand on the route. For example, the Shire of Esperance, as the owner and operator of the Esperance Airport, could consider reducing or waiving its airport fees for flights that are part of holiday packages in order to contribute to tourism growth.

The State Government, through the Department of Transport, will continue to chair the Esperance Aviation Community Consultation Group meetings with the airline and regional stakeholders and assist by facilitating discussions on route development. However, greater and regular engagement between the airline, community representatives, local businesses and tourism operators will be crucial in achieving the best outcomes for the route. In this context, for long term sustainability of the route, some stakeholders have indicated the importance of providing key route statistics such as average airfares, on time performance rates, and passenger numbers over certain periods.

Esperance from the sky
Source: Esperance Visitors Centre



Way forward

It is recommended that the Perth–Esperance route be regulated for up to five years beyond February 2016. In the interest of accountability, fairness, equity and transparency, the route will be subject to a competitive tender process in 2015 through which a single airline will be appointed under an agreement with the State Government to serve the RPT route for up to five years.

The request for tender document will seek tenders from airlines for the provision of RPT air services between Perth and Esperance that best meet the community needs and level of demand. In addition, taking into account the feedback from the Esperance community, bidding airlines will need to demonstrate their commitment to developing the route.

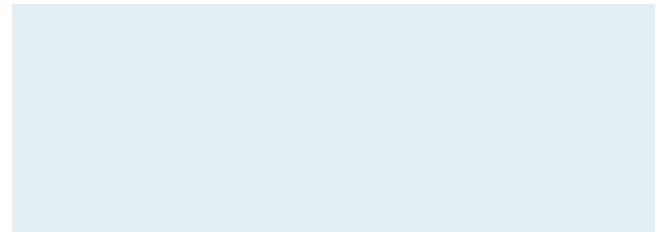
Consistent with current regulatory arrangements, the ensuing agreement between the State Government and the successful airline will see a capped airfare, a fixed schedule of air services, and a benchmark for on-time performance set. This means that should the airline operating the route wish to vary any of these parameters, it will need to seek the approval of the State Government to do so.

Under the conditions of the future airline agreement, a review of airline performance will be undertaken after two years (mid-term review). If the performance of the airline at that time is considered to be meeting requirements—in terms of frequency, reliability (on-time performance), affordability of air services (average fares), customer engagement and route development of tourism/business/other

markets—then the airline can continue as the sole operator on the route until the end of the five-year term. The possibility for extension of monopoly rights to the route would provide an incentive for the airline to build new markets and grow the route. If, however the mid-term review determines that the level of performance is not satisfactory, then the route could be re-tendered.

Highlights

- With approximately 48,000 passengers per year, current demand on the Perth–Esperance route is sufficient for one operator only. Experience in other states across Australia suggests that routes with demand of less than 100,000 passengers per year are unlikely to sustain two operators.
- The predominant users of the RPT services on the Perth–Esperance route are business travellers. Stakeholders believe that there is a need to develop the leisure market of the route. High airfares detract from enhanced local tourism and business opportunities.
- Direct and strong engagement between the airline and the community, local businesses and tourism operators on a regular basis in the future will be essential in identifying how to better meet the needs of business and leisure travellers and grow the route.



6.4 From Perth to Monkey Mia and Carnarvon (Gascoyne region)

Demand profile

This air route is commonly referred to as the Coral Coast route and includes the regional centres of Carnarvon and Monkey Mia (also known as Shark Bay). From tourism, community and business perspectives, RPT air services on the Perth–Monkey Mia–Carnarvon route are central to the region’s economy and the social wellbeing of communities in the Gascoyne region.

Carnarvon has a population of 4500 people (ABS, 2011) and is located on the Western Australian coastline approximately 900 km north of Perth. Carnarvon is renowned for its horticultural, pastoral and salt mining activities, and for commercial fishing (Shire of Carnarvon, n.d.).

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 and serves the community of Denham as well as numerous tourists and visitors to the region. Situated within the Shark Bay World Heritage-listed area, Monkey Mia is a unique and popular holiday destination famous for its national parks, coastline and dolphins, attracting over 100,000 domestic and international visitors every year (Shark Bay, 2009).

Table 7 and figure 5 provide a breakdown of the annual number of passengers on the route since 2006. Overall, Carnarvon passenger movements have increased by approximately 22 per cent since 2006, reaching a peak of over 26,000 in 2011–12. However, demand for Carnarvon RPT services in the last two years has declined by about seven per cent. Compared to other coastal regulated routes in WA, such as Albany and Esperance that have demand of approximately 60,000 and 48,000 passengers per year respectively, demand on the Carnarvon route of around 25,000 passengers per year is generally considered relatively ‘thin’ or marginal.

Demand for RPT services to/from Monkey Mia has been in decline over recent years. Since 2006 passenger movements to/from Monkey Mia have decreased by approximately 40 per cent, dropping to only 3632 in 2013–14. The Monkey Mia route is considered to be a ‘thin’ or marginal route due to the very small passenger volumes that

generate limited revenue. The level of demand for Monkey Mia flights is similar to that of Laverton or Wiluna in the Northern Goldfields, but unlike those two towns, Monkey Mia’s RPT services are not underpinned by the resources sector.

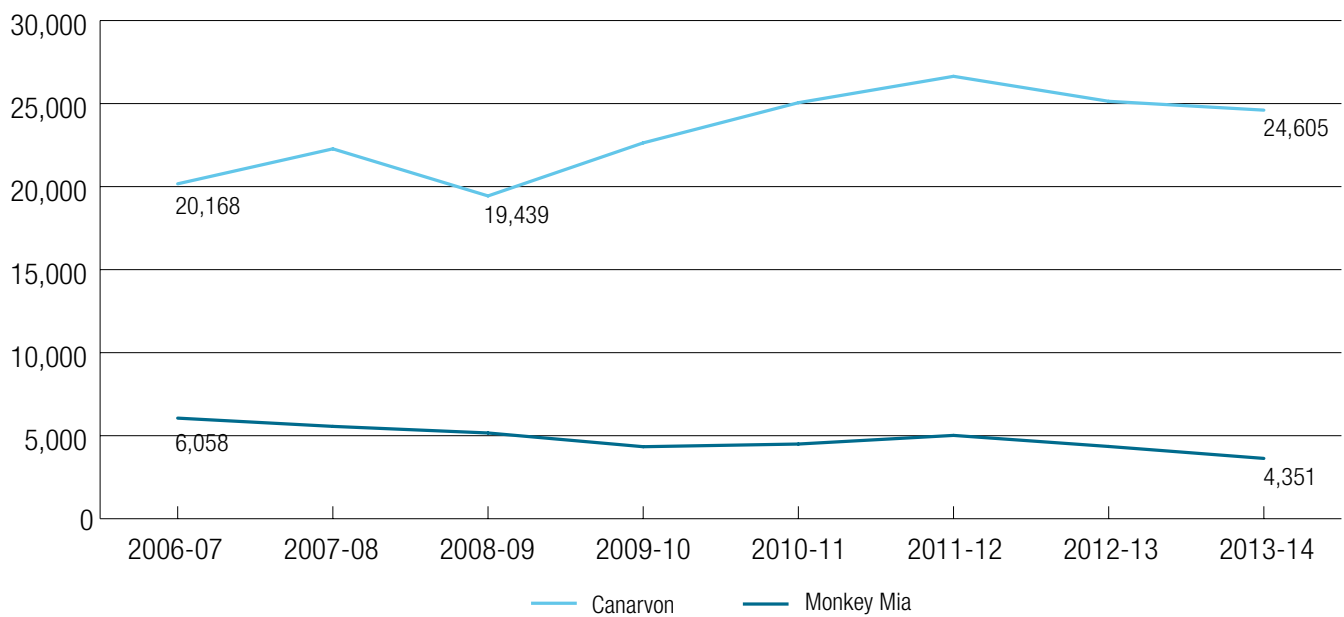
It should be noted that passenger demand on the Coral Coast route is generally lower in the summer months between December and February each year. The drop in demand on the Coral Coast route over the 2014–15 summer period has necessitated the use of smaller aircraft with 19 seats on some flights. On a few occasions, the lack of demand has resulted in cancellations of certain flights on the Coral Coast route as they were not commercially viable.

Table 7: Coral Coast passenger movements

| FINANCIAL YEAR | PASSENGER MOVEMENTS CARNARVON | PASSENGER MOVEMENTS MONKEY MIA |
|------------------------------|-------------------------------|--------------------------------|
| 2006–07 | 20,168 | 6,058 |
| 2007–08 | 22,274 | 5,561 |
| 2008–09 | 19,439 | 5,164 |
| 2009–10 | 22,633 | 4,337 |
| 2010–11 | 25,053 | 4,498 |
| 2011–12 | 26,642 | 5,018 |
| 2012–13 | 25,137 | 4,351 |
| 2013–14 | 24,605 | 3,632 |
| July Dec 2014 (half year) | 11,278 | 1,702 |



Figure 5: Coral Coast passenger movements



On-board flight surveys, with a sample size of approximately 270, were conducted on the route in 2013. The surveys revealed the following data from users of the RPT services:

- 43.4 per cent of all surveyed travellers are Perth residents, 35.6 per cent are Coral Coast (Canarvon or Shark Bay) residents and 21 per cent are from elsewhere;
- 60 per cent of the non-Perth and non-Coral Coast residents come from other states in Australia and 40 per cent fly from other regions in WA;
- 58.4 per cent of surveyed passengers using the Canarvon RPT air services travel for business purposes;
- 20.4 per cent of surveyed passengers using the Canarvon RPT air services travel for holiday and leisure purposes;
- 26.9 per cent of surveyed travellers using the Monkey Mia RPT air services travel for business purposes;
- 58.5 per cent of surveyed passengers using the Monkey Mia RPT air services travel for holiday and leisure purposes;
- 84.8 per cent of surveyed Perth residents travel to Canarvon for work purposes and 8 per cent for holiday/leisure purposes;
- 55 per cent of surveyed Perth residents travel to Monkey Mia for holiday/leisure purposes and 25 per cent for work purposes; and

- 18.5 per cent of surveyed passengers living in Canarvon and 25 per cent of surveyed passengers living in Shark Bay/Monkey Mia use the RPT air services for medical reasons—this indicates that flights are a necessity for the regional community and an important service for people’s welfare.

Services profile

Since 2011 the Coral Coast air route has been serviced by a sole RPT operator—Skippers Aviation (Skippers). Aircraft used on the route are turboprop Dash-8 300s with a capacity of 30 or 36 seats and the Embraer Brasilia with a capacity of 36 or 50 seats. Occasionally, (for example in summer) some services are provided in Metroline aircraft with 19 seats.

The one-way direct RPT flight between Perth and Canarvon takes just over two hours compared to the 10 hours (approximately) that it takes to make the journey by car. The RPT air service between Perth and Monkey Mia is about one hour and 45 minutes.

In this context, road transport can be a substitute for flights as travellers can consider a trade-off between the cost of an airfare and the cost of time when travelling by car. In addition, prospective travellers can also decide to use the Integrity Coach Lines’ bus services between Perth and Canarvon/Monkey Mia that operate three times per week (Integrity Coach Lines, 2015). However, the RPT flights are a faster and preferred alternative for many residents, business travellers and tourists.

Carnarvon currently receives 10 return RPT services per week from/to Perth. Of these, four services per week are direct between Perth and Carnarvon, four flights are via Monkey Mia (mostly to meet demand on weekends), and two flights are via Geraldton. In addition, since 19 January 2015 Skippers commenced RPT operations between Carnarvon and Onslow. Geraldton and Onslow are unregulated RPT airports.

Monkey Mia currently receives four RPT air services per week. All four services are direct from Perth to Monkey Mia but indirect on the return leg, that is, Monkey Mia is an intermediate stop on flights from Carnarvon to Perth.

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

Regulatory considerations

The proposed regulatory approach outlined in the Review's Position Paper was to:

“Regulate the Perth–Monkey Mia–Carnarvon air route beyond 27 February 2016.”

As part of the consultation process, formal feedback was received from regional stakeholders' submissions in response to the Review's Position Paper, as well as face-to-face discussions held at the Carnarvon workshop in September 2014. The feedback regarding the future regulatory approach to both Carnarvon and Monkey Mia has been almost unanimously supportive of continued regulation. However, in the context of supporting route regulation beyond 2016, strong views have been expressed by most stakeholders regarding the desired standards of future RPT services.

Carnarvon

With approximately 25,000 passengers per year, there is a broad consensus that demand for Perth–Carnarvon RPT services is sufficient for one operator only. Experience in other states across Australia indicates that routes with fewer than 100,000 passengers per year are unlikely to have two operators. In New South Wales, only regional air routes with annual demand of over 100,000 passengers attract two or more operators.

For example, Sydney–Armidale (with 114,380 passengers in 2013–14) and Sydney–Dubbo (with 181,500 passengers in 2013–14) are currently serviced by two airlines—Qantas and REX (Transport for NSW, 2014). In this context, due to the relatively low passenger numbers on the Perth–Carnarvon route, the risk of market failure in an unregulated environment (that is, an adequate level of RPT air services would not be viable) is high. As such, regulation beyond February 2016 is warranted. Only a small number of stakeholders have suggested, from the viewpoint of reduced airfares in the future, deregulation of the Perth–Carnarvon route.

Submissions on the Review's Position Paper indicate community concern about high airfares on the Perth–Carnarvon route as they inhibit route development, particularly from the tourism market. Tourism bodies, community representatives and stakeholders have highlighted the importance of lower fares to develop the tourism and leisure market on the Perth–Carnarvon route.

The average one-way airfare, including all taxes and charges, on the Perth–Carnarvon route was \$345 in 2013–14. While concession airfares for local residents are available at all times and some promotional fares are offered on the route from time to time, discounted fares are rather limited. Some promotions on the route over the 2014–15 summer season included an airfare of \$233 (promoted as \$466 for a return flight).

It should be recognised that, as there is no security screening at Carnarvon Airport, the fares do not include any security screening charges. In this regard, the total taxes represent a much lower portion of the airfare compared to other regional routes in WA, such as Perth to Albany or Esperance. It is also noteworthy that business travellers, comprising more than half of the users of the RPT services on the Perth–Carnarvon route, are less responsive to changes in price than leisure travellers and in many cases they do not pay their own fare.

Monkey Mia

With only 3600 passengers in 2013–14, demand for Perth–Monkey Mia RPT services, which is generated predominantly from the leisure market, is barely sufficient for one operator. Furthermore, Monkey Mia demand has been declining and, if this trend continues, the viability of RPT services to this popular tourism destination may be at risk.



It is presumed that although the passenger throughput is low it is currently sufficient to cover the extra costs involved in making the stop from Perth to Monkey Mia on the way to Carnarvon. Without regulation Monkey Mia flights will be at serious risk, leaving the town without any air services.

Stakeholders have indicated that, given the strong tourism attributes of Monkey Mia, continued air services to this iconic destination of the State are vital. The significance of RPT air services has been highlighted by the upcoming 400th anniversary (25 October 2016) of Captain Dirk Hartog arriving at Shark Bay. The event is expected to attract many visitors including Dutch royalty and dignitaries. Sustained air services to Monkey Mia are also seen as critical in continuing to attract private sector tourism investment in Monkey Mia, Denham and Shark Bay. Aspen Parks (acquired by the RAC in March 2015), the owner and operator of the Monkey Mia Airport, has invested \$8 million in the Monkey Mia resort in recent years.

Some stakeholders have suggested that if the Monkey Mia services were likely to become unviable in the future, a government subsidy should be considered. However, despite the low and declining number of passengers, the Monkey Mia RPT services have been viable without a government subsidy. Given the current economic and financial conditions, subsidies for intrastate aviation beyond 2016 are highly unlikely to be considered by the State Government unless absolutely necessary.

It is also worth noting that in September 2014, the Commonwealth Government announced that it would reinstate the en-route rebate scheme for low traffic regional routes. The program, administered

through the Department of Infrastructure and Regional Development, provides financial assistance of \$1 million each year over four years for regional routes carrying up to 15,000 passengers per year using aircraft weighing 15,000 kg or less (DoIRD, 2014).

Stakeholders have expressed concerns regarding the high fares for Monkey Mia flights. The average one-way airfare, including all taxes and charges, on the Perth–Monkey Mia route was \$316 in 2013–14. Like Carnarvon, discounted fares are rather limited, although some promotional airfares were offered on the route over the 2014–15 summer season including an airfare of \$233 (promoted as \$466 for a return flight). As there is no security screening at Monkey Mia Airport, the fares do not include any security screening charges.

Security screening

A key consideration for the Carnarvon and Monkey Mia RPT services is that currently all aircraft used on the routes are below 20,000 kg and therefore, consistent with Commonwealth legislation administered by the Office of Transport Security (OTS), do not require security screening of passengers and baggage. If however, Fokker 50 or larger size planes were to operate at these airports they would be subject to security screening requirements.

Regional stakeholders have indicated in their submissions their strong preference for having access to aircraft larger than the current 30-, 36- and 50-seater Dash-8 aircraft in the future. Stakeholders have also expressed a desire to cease the use of smaller Metroliner aircraft with 19 seats, which have only been used occasionally during short periods of low passenger demand.

The use of larger capacity planes would only be feasible if both Carnarvon and Monkey Mia airports were upgraded. At present, neither of the two airports has security screening facilities in place. To allow the landing of larger aircraft, both airports would need to make a significant financial and capital investment in security screening equipment. Such expensive investment in the installation of security screening facilities may not be commercially viable for the airport operators especially given the low volume of passenger demand on the routes.

Despite these financial implications, some stakeholders believe that the current lack of security screening at Carnarvon and Monkey Mia airports should not pose a barrier for airlines with larger planes to consider providing RPT services to both towns in the future. Therefore, these stakeholders urge the State Government to lobby the OTS to increase the weight threshold above 20,000 kg so that Fokker 50 planes are exempt from security screening. Engagement with the Commonwealth has indicated that there will not be a change to this arrangement in the short-to-medium term.

Concerns have also been raised in relation to the current RPT services operating from the GA terminal at Perth Airport, which is primarily used for charter air services. Stakeholders and communities in Carnarvon and Monkey Mia generally have a preference to access RPT flights from the main terminal at Perth Airport as it does not require extra time for transfers and is more convenient.

Global Distribution System

Strong concerns have been expressed by stakeholders in their submissions to the Review's Position Paper regarding the future need for flights on the Coral Coast route to be available on a Global Distribution System (GDS). A GDS is used by a number of airlines to enable travel agents to access and book flights. A GDS can link services and bookings across a number of travel products, such as airfares, car hire and accommodation reservations, enabling a travel agent with a connection to a single GDS to book various travel services on all operators who are part of that global GDS.

The current RPT operator on the Coral Coast route does not use a GDS. This has been negatively received by regional organisations and has been seen to inhibit tourism opportunities. Carnarvon

stakeholders strongly believe that the use of a GDS, with its connectivity features, can foster tourism in the Gascoyne region and therefore should be a mandatory requirement for future RPT operations. Similarly, Shark Bay stakeholders are of the view that, given the focus on tourism in the Shark Bay region, a GDS is essential for growing the tourism market on the Perth–Monkey Mia route.

Given the advantages of such a system in promoting greater connectivity, the State Government acknowledges that a GDS would be highly desirable for the Perth–Carnarvon and Perth–Monkey Mia routes in the future. However, it should be noted that the current RPT services have been viable without a GDS. If the future RPT provider does not readily have a GDS, implementing even a basic GDS will still require substantial financial investment by the airline. For RPT providers without a GDS, a code-sharing arrangement with other airlines with an established GDS may be a cost-effective alternative. The use of a GDS or any code-sharing agreements will be a commercial decision for the airline.

Route development

The use of a GDS alone will not guarantee the robust development of the tourism market on the Perth–Carnarvon and Perth–Monkey Mia routes. Rather, a multi-faceted approach to developing the routes, including strong collaboration by all parties, will be required in order to increase demand on the route. Through collaboration by all parties, a variety of initiatives can be identified to better meet the needs of business and leisure travellers while also taking into account the commercial realities for airlines.

Various holiday packages offering good value for money for customers could be actively promoted in order to stimulate leisure travel. These packages can be mutually beneficial for all business and tourism operators, as well as travellers. Current RPT services to Carnarvon and Monkey Mia have sometimes been promoted as part of holiday packages inclusive of flights, accommodation and car hire. This has been achieved through collaboration between Skippers, Tourism WA, Discover Australia Holidays and Aspen Parks (now part of RAC).

Other stakeholders will also need to directly engage with the airline to generate incremental demand on the route. For example, the Shire of Carnarvon, as the owner and operator of

Carnarvon Airport, could consider reducing or waiving its airport fees for flights that are part of holiday packages in order to contribute to tourism growth. Overall, wider awareness of the region's tourism activities in the future can generate increased patronage and boost local business opportunities. Tourism WA and other tourism bodies, such as Discover Australia Holidays and Aspen Parks, will continue to be key players in promoting the Gascoyne region.

The State Government, through the Department of Transport, will continue to chair Aviation Community Consultation Group meetings with the RPT airline and regional stakeholders and assist by facilitating discussions on development of both the Carnarvon and Monkey Mia routes. However, greater and regular engagement between the airline, community representatives, local businesses and tourism operators will remain crucial in achieving the best route outcomes. In this context for long term route sustainability some stakeholders have indicated the importance of providing key route statistics such as average airfares, on time performance rates, and passenger numbers over certain periods.

Submissions on the Review's Position Paper also suggest the establishment of new intrastate connections for Carnarvon and Monkey Mia in order to encourage tourism development. For example, feedback indicates that more

frequent connections between Carnarvon and Geraldton would cater for the needs of medical passengers, school students and Indigenous travellers. In addition, linking Carnarvon and Monkey Mia with other regional towns such as Exmouth, Karratha, Paraburdoo, Port Hedland and Broome can also benefit the regions.

There is a broadly shared view among Carnarvon and Monkey Mia stakeholders that flight connections with other intrastate leisure routes can attract more visitors. More particularly, it has been suggested that Exmouth can be a future hub for RPT air services and provide linkages to Carnarvon and Monkey Mia. However, while jet planes can land in Exmouth, and are the preferred aircraft by the Exmouth community, Carnarvon and Monkey Mia airports cannot currently accommodate jet operations. In addition, potential links with other airports mean that the route would become a 'milk run', which is not a desirable outcome for all communities. Nevertheless, the State Government recognises the economic and social benefits in flight connectivity and will take this into consideration in any future tendering of regulated air routes.

Other considerations

The stagnant dynamics of the Coral Coast route and the low levels of mining activity in the Carnarvon region make the route less attractive to air operators. In addition, some airlines may not be interested in servicing the route because they do not have aircraft weighing less than 20,000 kg in their fleet. Discussions with the aviation industry indicate that there is limited interest from airlines in providing RPT services beyond 2016.

Way forward

To ensure continued access to Carnarvon and Monkey Mia air services, and to minimise the potential threat of market failure particularly for the Monkey Mia route in the future, regulation is the most appropriate course of action for State Government beyond 2016. Therefore, it is recommended that the Coral Coast route be regulated beyond February 2016 for up to five years. In the interest of accountability, fairness, equity and transparency, the route will be subject to a competitive tender process in 2015 through which a single airline will be appointed under an agreement with the State Government to the serve the RPT route for up to five years.



Flying over the ocean

The request for tender document will seek tenders from airlines for the provision of RPT air services between Perth and Carnarvon and Perth and Monkey Mia that best meet the community needs and level of demand. In addition, bidding airlines will need to demonstrate their commitment to developing the Coral Coast route.

Some stakeholders have highlighted that as air routes to Carnarvon and Monkey Mia are marginal, pairing the two towns should be avoided. Instead, some stakeholders suggest that marginal ports should be combined with stronger ports such as Geraldton, which was previously regulated. In leveraging a stronger port with a weaker port, airline costs could be distributed across their aviation network (cross subsidisation). However, consistent with the State Government's preference for a light-handed regulatory approach, re-regulating Geraldton is not supported. Nonetheless, through the tender process consideration can be given to the establishment of new flight paths beyond 2016. New air route configurations may include direct or multi-legged flights, whereby Carnarvon and Monkey Mia are serviced separately, together, or in any combination with other ports such as Geraldton and Exmouth, both of which receive robust RPT services.

Consistent with current regulatory arrangements, the ensuing agreement will see a capped airfare, a fixed schedule of air services, and a benchmark for on-time performance set. This means that should the airline operating the route wish to vary any of these parameters, it will need to seek the approval of the State Government to do so.

Under the conditions of the future airline agreement, a review of airline performance will be undertaken after two years (mid-term review). If the performance of the airline at that time is regarded as meeting requirements—in terms of frequency, reliability (on-time performance), affordability of air services (average fares), customer engagement and route development of tourism/business/other markets—then the airline can continue as the sole operator on the route until the end of the five-year term. The possibility for extension of monopoly rights will provide an incentive for the airline to build new markets and develop the route. If, however the mid-term review determines that the level of performance is not satisfactory, then the route could be re-tendered.

Highlights

- With just over 25,000 and 3600 passengers per year to Carnarvon and Monkey Mia respectively, the Coral Coast route is relatively marginal compared to other regulated routes. Nevertheless, under the existing government regulatory model, RPT services on the route have been provided without a subsidy from the State Government.
- The current volume of passengers travelling to Carnarvon and Monkey Mia is sufficient for one operator only. There is a considerable risk of market failure (that is, inadequate or no air services at all) if the Coral Coast route is deregulated beyond 2016, given the low and declining passenger volumes. The risk is particularly high for Monkey Mia. Generally, communities and stakeholders support the need for regulation to both destinations beyond February 2016.
- The RPT flights operating at Carnarvon and Monkey Mia airports are not currently subject to security screening due to the small size of aircraft used on these routes (under 20,000 kg). Larger planes, such as a Fokker 50, will only be able to land at Carnarvon and Monkey Mia after the airports are upgraded to accommodate security screening operations. These upgrade works require substantial capital investment.

Final recommendation

Regulate the Coral Coast air route beyond 27 February 2016 and award rights to a single RPT operator for up to five years, subject to a route review of airline performance. Regulation may see either the maintenance of the existing route connections or the establishment of new route configurations between Perth and Carnarvon and between Perth and Monkey Mia.

6.5 From Perth to the Northern Goldfields

Demand profile

Stretching between 500 km and 900 km north-east of Perth and situated north of Kalgoorlie–Boulder, the Northern Goldfields region is underpinned almost entirely by the resources sector. The mining industry has strong needs for regular and reliable air services in order to transport their FIFO staff to regional mine sites. The passenger demand from the resources sector in the region is met by a mix of closed charter and RPT air services.

Apart from mining personnel using the RPT services, some passenger demand for RPT services also comes from local residents and general business travellers. Thus, the RPT air services play a critical role in connecting the small remote communities in the Northern Goldfields with Perth. The RPT air services on the Northern Goldfields routes have similar characteristics in terms of traffic volume, market type, distance from Perth, schedules and airfares. The three regulated RPT air routes in the region, as initially established under the 2011 regulatory framework, are between Perth and:

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

Table 8 and figure 6 provide a breakdown of the annual number of passengers across all three Northern Goldfields routes since 2006 and show that demand on the routes has been volatile.

Compared to almost all other regulated routes in WA, the Northern Goldfields routes are considered to be ‘thin’ or marginal routes due to the very small passenger volumes that generate limited revenue. The combined passenger demand for RPT services on the Northern Goldfields routes has declined dramatically from 31,649 in 2012–13 to 20,506 in 2013–14, a drop of 34.7 per cent. This decrease in the number of RPT passengers can be largely attributed to the recent slowdown of the resources sector, which has reduced its mining activities, and also to the increased number of closed charter air services operating within the region.

Table 8: 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 |
| 2013–14 | 20,506 |
| <i>July Dec 2014 (half year)</i> | <i>9,214</i> |

Figure 6: Northern Goldfields passenger movements

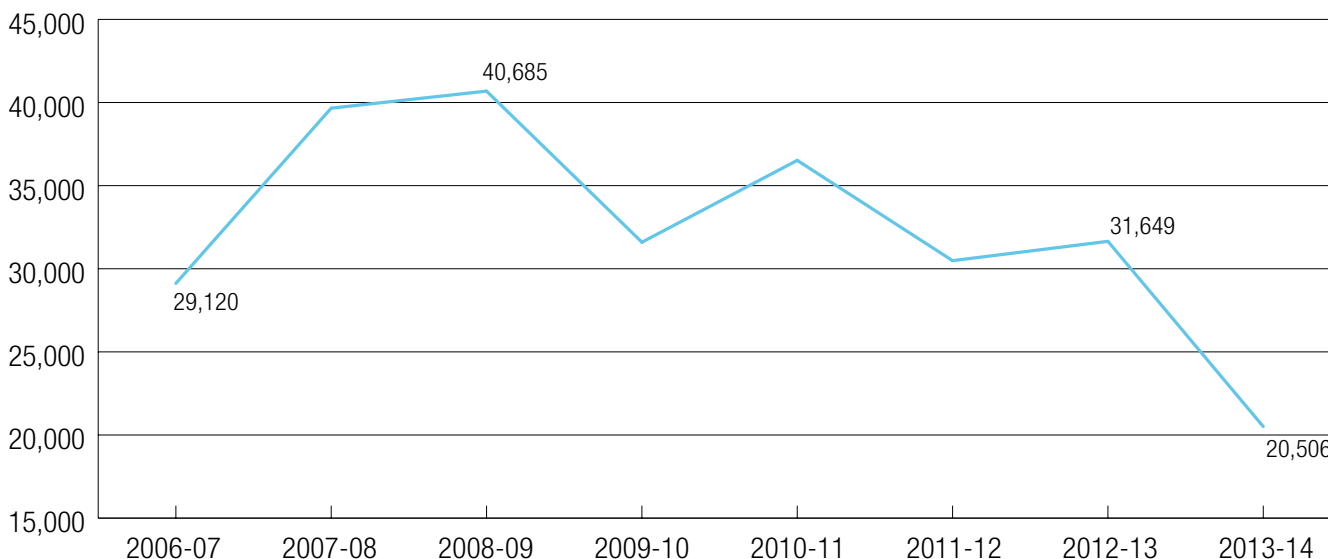


Table 9: Northern Goldfields passenger movements by airport

| FINANCIAL YEAR | PASSENGER MOVEMENTS MEEKATHARRA | PASSENGER MOVEMENTS MT MAGNET | PASSENGER MOVEMENTS LAVERTON | PASSENGER MOVEMENTS LEONORA | PASSENGER MOVEMENTS LEINSTER | PASSENGER MOVEMENTS WILUNA |
|----------------|---------------------------------|-------------------------------|------------------------------|-----------------------------|------------------------------|----------------------------|
| 2006–07 | 6,459 | 3,980 | 3,635 | 8,826 | 3,325 | 2,895 |
| 2007–08 | 5,263 | 4,110 | 5,633 | 15,892 | 4,586 | 4,176 |
| 2008–09 | 6,265 | 4,063 | 4,284 | 18,352 | 2,925 | 4,796 |
| 2009–10 | 4,598 | 2,205 | 3,791 | 16,897 | 1,925 | 2,181 |
| 2010–11 | 3,424 | 3,082 | 5,304 | 20,982 | 1,405 | 2,323 |
| 2011–12 | 4,738 | 2,134 | 4,767 | 14,766 | 1,593 | 2,490 |
| 2012–13 | 5,822 | 1,907 | 5,294 | 15,144 | 923 | 2,559 |
| 2013–14 | 4,746 | 1,670 | 2,981 | 7,524 | 149* | 3,585 |
| July-Dec 2014 | 1,694 | 670 | 1,657 | 2,829 | N/A* | 2,364 |

* RPT flights to/from Leinster have been suspended since 30 September 2013

A breakdown of the annual passenger movements for each of the three Northern Goldfields airports is provided in table 9. Except Wiluna, which shows an increase of approximately 40 per cent in passenger movements, demand has declined for each of the regional towns in 2013–14 compared to the previous year. Leonora had the most significant drop, with demand decreasing in 2013–14 to approximately half the number of passengers in the previous year, due in part to increased closed charter operations to/from Leonora.

On-board flight surveys, with a sample size of approximately 260, were conducted on the routes in 2013. The surveys, revealed the following data from users of the RPT services:

- 67.8 per cent of surveyed travellers are Perth residents, 8.8 per cent are Northern Goldfields residents and 23.4 per cent of travellers are from somewhere else;
- 33.4 per cent of the surveyed non-Perth and non-Northern Goldfields residents come from other regions throughout WA;
- 88.2 per cent of surveyed passengers use the Northern Goldfields RPT air services for business purposes and of those 55.7 per cent are from the resources sector; and
- 42.9 per cent of surveyed Northern Goldfields residents travelled to Perth for medical purposes—this demonstrates that the RPT services provide access to essential welfare facilities in Perth that are vital for the wellbeing and living standards of regional communities.

Services profile

The Northern Goldfields routes have been serviced by a sole RPT operator—Skippers Aviation. The aircraft used on the routes are 19-seat turboprop Metroliners, turboprop Dash-8s and the Embraer Brasilia with a capacity of 30, 36 and 50 seats depending on passenger demand. All aircraft used across the RPT routes are less than 20,000 kg and therefore, consistent with Commonwealth legislation administered by the Office of Transport Security (OTS), do not require the security screening of passengers and baggage.

When the regulatory framework was established in early 2011, the frequency of most RPT flights in the Northern Goldfields was greater than three services per week, which is the minimum level required under the airline's deed with the State Government. However, the gradual decrease in demand has necessitated a reduction in the number of services to all Northern Goldfields airports to three RPT services per week, except Leonora which receives four services per week.

Following a request from BHP Billiton Nickel West (BHP) and community and stakeholder consultation, the RPT services to/from Leinster were suspended in September 2013. Leinster is a closed mining town operated exclusively for BHP and, as there is no need for air services for the general public, RPT flights to/from the town are obsolete. The population of Leinster comprises of mining staff and their families, all of whom are associated with BHP's mining operations and able to access BHP's frequent closed charter flights between Perth and Leinster.

The suspension of RPT services to/from Leinster, as part of the Perth–Wiluna–Leinster route, has caused uncertainty in regards to the viability of RPT air services to/from Wiluna, which has historically had very low passenger numbers. Since 4 November 2013, following consultation with the regional community and stakeholders, Wiluna has been added to the Perth–Mount Magnet–Meekatharra route. The flight path configuration on the route has varied on several occasions in an attempt by the incumbent airline to maintain the viability of RPT services to all three towns.

The current flight schedule provides three weekly services to Wiluna, Mount Magnet and Meekatharra. The RPT services to/from Wiluna have been configured via Meekatharra on two days of the week, while the third Wiluna service is provided in conjunction with a flight that includes both Mount Magnet and Meekatharra.

It should be noted that Mount Magnet, which has historically had the lowest number of passengers compared to the other Northern Goldfields towns (except Leinster), has received two direct services per week from Perth since 1 September 2014. These direct services have become possible due to the willingness of the mining company Ramelius Resources to utilise the RPT services rather than closed charters.

On the Perth–Laverton–Leonora route, the current RPT services are triangulated between Perth, Leonora and Laverton three times a week. In addition to the three weekly flights, one direct RPT service per week is provided between Perth and Leonora.

Regulatory considerations

The proposed regulatory approach outlined in the Review's Position Paper was to:

“Regulate the Northern Goldfields air routes beyond 27 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, Mount Magnet and Wiluna.

AND

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

As part of the consultation process, formal feedback was received from regional stakeholders' submissions in response to the Review's Position Paper, as well as teleconference workshops held for each of the Northern Goldfields routes in October 2014. The feedback regarding the future regulatory approach to the routes has been relatively consistent.

Generally, communities and stakeholders support the need for regulation of the Northern Goldfields routes beyond February 2016. Recognising the slowdown of the resources sector, which to a large extent underpins the RPT services, the regional communities are very likely to lose their RPT services in an unregulated environment given the very low number of passengers. The volatility of the resources industry makes traffic volumes on the Northern Goldfields routes unstable and difficult to predict. Even maintaining a regulated market will not guarantee a continuation of RPT air services, given the low and declining passenger volumes. Nevertheless, it is important to recognise that all regulated Northern Goldfields routes have been viable without a subsidy from the State Government.

Leonora and Laverton

No specific feedback via submissions on the Review's Position Paper has been provided in regards to the Leonora and Laverton RPT services. Previous discussions with key stakeholders have indicated that in some instances Leonora travellers opt to drive over 200 km to Kalgoorlie, which is an unregulated airport and receives over 30 RPT air services per week. This had initially raised some concerns regarding potentially reduced passenger demand for Leonora flights; however, Leonora still receives four services per week. The three weekly services to/from Laverton have also remained viable. Generally, the triangulated route Perth–Laverton–Leonora appears to be viable, and there have been no requests from regional stakeholders or communities to change the route's flight configuration.



Meekatharra

Feedback via submissions on the Review's Position Paper in regards to the Meekatharra RPT services has been limited. Generally, there is a preference for maintaining three weekly services to/from Meekatharra beyond 2016. Discussions at recent Aviation Community Consultation Group meetings indicate that the current frequency and configuration of some flights via Mount Magnet and Wiluna remains viable.

Leinster

There is general support for the permanent removal of RPT services to/from Leinster as initially requested by BHP. Since Leinster is a closed mining town it has no need for community air services and these circumstances are unlikely to change in the future. It should be noted that, as part of a longstanding commitment to State Government, BHP previously supported the RPT service on the Perth–Wiluna–Leinster route by purchasing 17 RPT seats per week. With the suspension of Leinster RPT services, BHP's requirement to purchase 17 RPT seats has been suspended too. The permanent removal of Leinster RPT services beyond 27 February 2016 means that BHP's longstanding commitment to financially support the RPT air services would cease indefinitely.

Wiluna and Mount Magnet

The cessation of Leinster as an RPT airport, and along with it BHP's commitment to underwrite the RPT services on the route, has posed serious challenges in maintaining three weekly services to Wiluna. Several trials undertaken by Skippers in 2013 indicated that standalone direct services between Perth and Wiluna in planes with 19 seats were unviable. As a result, Wiluna was added to the Perth–Mount Magnet–Meekatharra route in November 2013 and since then the RPT air services to all three towns appear to be viable.

There is, however, a significant risk to the viability of Wiluna RPT services in the future. The Shire of Wiluna owns and operates Wiluna Airport and, in February 2014, proposed a downgrade of Wiluna Airport due to the Shire's financial difficulties in maintaining the current status of the airport.

Following extensive discussions between DoT, the Shire, Skippers and representatives of the resources companies operating in the region, this proposal has been placed on hold and is currently being reconsidered by the Wiluna Council. However, should the downgrade of Wiluna Airport eventuate in the future, it would mean that only aircraft with 30 seats or less would be able to land at the airport. Given that the current RPT services to/from Wiluna are often provided in aircraft with more than 30 seats, and are only sustainable

in conjunction with Meekatharra flights, the downgrade of Wiluna Airport would significantly limit future options, potentially leaving the Wiluna community with fewer or no RPT air services at all.

The Wiluna RPT services are also at risk from a slowdown in mining activities in the Wiluna region. In January 2015 the mining company Rosslyn Hill announced large workforce reductions (over 200 workers) and went into care and maintenance mode until further notice. As a result, Rosslyn Hill has not been using the RPT services to Wiluna, resulting in a 35 per cent drop in passenger demand for the February to April 2015 quarter compared to the same period in 2014.

Concerns have been expressed by the Wiluna community about the anecdotal inference that Wiluna residents can access closed charters provided by Alliance Airlines for BHP Nickel West between Perth and Mount Keith—a small mining town located approximately 80 km south of Wiluna. It is alleged that as a result of residents accessing charter flights, demand for Wiluna RPT services is lower than it would otherwise be, placing pressure on the RPT service. It is important to note that the general public is not allowed to use closed charter flights under

Commonwealth legislation administered by CASA. This issue is outside of DoT's jurisdiction and has been forwarded to CASA.

Apart from demand from the resources sector, the travel surveys identified that the Wiluna RPT services also cater for a high level of medical travel. Feedback on the Review's Position Paper indicates that, through the Nganagganawili Aboriginal Health Services Community, health professionals from across Australia provide FIFO health care services to Wiluna and its surrounding areas. In addition, BHP highlights that airfares for Wiluna passengers travelling for medical purposes are paid for by the State's Patient Assisted Travel Services (PATS) transport scheme.

Some stakeholders have expressed strong views that there is not sufficient demand for RPT services to Wiluna and therefore future regulation of Wiluna services should not be continued. In particular, these stakeholders have expressed concerns regarding the special charter condition placed on the aircraft licence of some charter operators that requires them to purchase a certain number of RPT seats in order to maintain the viability of Wiluna RPT services. The feedback received from stakeholders highlights that charter

Flying over the outback
Source: Network Aviation



operators, or their resource sector clients, subsidise the Wiluna RPT services and that, despite such subsidy, the RPT services are still marginal. Furthermore, some submissions have suggested that, through the policy for charter air services, the State is forcing substantial private sector funds into RPT services that are not sustainable. It has also been highlighted that the special charter condition compromises the needs of the mining companies and provides an unfair advantage to the RPT operator—an outcome that is at odds with State Government objectives to minimise costs on the resources sector and charter industry. Part 7 provides details about charter operations.

Apart from Wiluna, some people also believe that RPT services to/from Mount Magnet are difficult to justify given the very low passenger movements. Moreover, it has been suggested that RPT services to/from Wiluna and Mount Magnet are not viable in their own right and therefore the State Government should reconsider the regulated provision of RPT services to both of these towns in the future, unless a Government subsidy is available. It is worth noting that in September 2014, the Commonwealth Government announced that it would reinstate the en-route rebate scheme for low traffic regional routes. The program, administered through the Department of Infrastructure and Regional Development, provides financial assistance of \$1 million each year over four years for regional routes carrying up to 15,000 passengers per year using aircraft weighing 15,000 kg or less (DoIRD, 2014).

It has also been suggested that residents of Mount Magnet and Wiluna can drive approximately 250 km (on sealed roads) to Meekatharra and access RPT air services to Perth. However, for Mount Magnet residents the three-hour drive to Meekatharra, in addition to the flight duration of approximately one hour, will not be an attractive option as the drive from the town to Perth is just over six hours.

Despite some stakeholders' views that RPT services to Wiluna and Mount Magnet cannot be justified, it is important to note that the current RPT services to these towns, albeit modified on several occasions, have been viable without a subsidy from the State Government. Furthermore, the RPT services are likely to remain viable in the future under a regulated environment so long as at least one RPT service provider is willing to operate in the Northern Goldfields. On that basis, it would be difficult to suddenly cease the provision of RPT flights to Wiluna and Mount Magnet. These remote communities have had access to RPT services for a number of years and if they are no longer able to rely on RPT flights, their quality of life and welfare will be adversely affected. As such, continued regulation of RPT services to both towns is essential.

Security screening

Another consideration for RPT services in the Northern Goldfields is that of security screening. All aircraft currently used for these RPT routes are less than 20,000 kg and therefore, consistent with Commonwealth legislation administered by the Office of Transport Security (OTS), do not require security screening of passengers and baggage. If, however, Fokker 50 or larger size planes were to operate on any of the Northern Goldfields routes, the aircraft would be subject to security screening requirements.

At present, none of the Northern Goldfields airports receiving regulated RPT services have security screening facilities. To allow landing of bigger planes, the airports would need to make significant financial and capital investments in security screening equipment.

As there is no security screening, passengers are not charged a security screening tax, thus reducing the overall airfare. Despite this, the one-way airfare applicable to nearly all Northern Goldfields flights is considered by stakeholders to be relatively high.

Other considerations

Another challenge in the provision of RPT services in the Northern Goldfields is that passenger demand can be significantly greater on one leg of the route (compared to other legs), further increasing the marginal nature of the route.

This is due to typical FIFO rosters, whereby these passengers occupy more seats on flights in one direction but not as many in the other direction. Fixed costs, such as fuel and staff salaries, are incurred regardless of the number of passengers on the plane. Some concerns from stakeholders have been expressed in relation to the lack of seat availability on certain one-way RPT flights due to block-bookings by mining companies—particularly on Tuesdays and Thursdays, the peak days for typical mining rosters. However, these concerns have been diminishing with the slowdown in the resource industry and the reduced demand for RPT services in the region in general.

Discussions with the aviation industry indicate that there is limited interest from airlines in providing RPT services on the Northern Goldfields routes beyond 2016 due to the following reasons:

- with relatively low passenger volumes, the Northern Goldfields routes are generally not attractive to airlines as demand is barely sufficient for one operator;
- only aircraft weighing less than 20,000 kg can land at the Northern Goldfields airports, and some airlines do not have such aircraft in their fleets—planes weighing more than 20,000 kg would be subject to security screening of passengers and baggage, and currently there are no security screening facilities at these airports; and
- charter operators potentially willing to provide RPT services in the Northern Goldfields must obtain an RPT licence from CASA—the process of obtaining such licence generally involves costs in the order of \$60,000 to \$100,000 and may take many months.

Given the low number of passengers using the Northern Goldfields services, operational flexibility (including the use of various sized aircraft) will be crucial for the future service provider. While the use of smaller aircraft, such as the 19-seat Metroline, is generally not the preferred aircraft by the communities, it has been accepted as a necessity when passenger demand is low.

Way forward

To ensure access to air services, and to minimise the potential threat of market failure in the future, regulation is the most appropriate course of action for State Government beyond 2016. Therefore, it is recommended that the Northern Goldfields routes be regulated for up to five years beyond February 2016. In the interest of accountability, fairness, equity and transparency, the route will be subject to a competitive tender process in 2015 through which a single airline will be appointed under an agreement with the State Government to serve the route for up to five years.

The request for tender document will seek tenders from airlines for the provision of RPT air services between Perth and the five airports in the Northern Goldfields (Mount Magnet, Meekatharra, Wiluna, Laverton and Leonora) that best meet the community needs and level of demand. In addition, bidding airlines will need to demonstrate their commitment to ensure the long-term viability of the route.

Through the tender process, consideration may be given to the establishment of new flight paths beyond 2016. New air route configurations may include direct or multi-legged flights, which connect Perth (or another major RPT airport, such as Kalgoorlie or Geraldton) with the five Northern Goldfields airports—Laverton, Leonora, Meekatharra, Mount Magnet and Wiluna.

Consistent with current regulatory arrangements, the ensuing agreement will see a capped airfare, a fixed schedule of air services, and a benchmark for on-time performance set. This means that should the airline operating the route wish to vary any of these parameters, it will need to seek the approval of the State Government to do so.

Under the conditions of the future airline agreement, a review of airline performance will be undertaken after two years (mid-term review). If the performance of the airline at that time is regarded as meeting requirements—in terms of frequency, reliability (on-time performance), affordability of air services (average fares), customer engagement and route development—then the airline can continue as the sole operator on the routes until the end of the five-year term. The possibility for extension of monopoly rights will provide an incentive for the airline to build new markets and grow the routes. If, however, the mid-term review determines that the level of performance is not satisfactory, then the routes could be re-tendered.

Highlights

- The Northern Goldfields routes are marginal. The passenger volumes for each town are very low and almost insufficient for one operator, let alone for more operators.
 - Travel on the Northern Goldfields routes is largely underpinned by the resources sector. The slowdown in the mining industry has led to a decline in demand for RPT services.
 - There is a considerable risk of market failure (that is, inadequate or no air services at all) if any of the Northern Goldfields routes are deregulated beyond 2016, given the low and declining passenger volumes. Generally, communities and stakeholders support the need for regulation of the Northern Goldfields routes beyond February 2016.
 - Given the very low passenger volumes, some stakeholders believe that the Wiluna and Mount Magnet RPT services should not be regulated unless subsidised by the Government, rather than being subsidised by the resources sector through the placement of special charter conditions on charter licences. However, the flights are deemed a necessity for the regional communities and essential for their welfare. All RPT flights in the Northern Goldfields and have been viable without a subsidy from the State Government.
 - Leinster is a closed mining town and therefore has no need for RPT services. On this basis, Leinster can be discontinued as an RPT airport in the future.
 - Standalone RPT services to Wiluna are not viable. Therefore, Wiluna has been connected with other airports in the Northern Goldfields. Airline flexibility is essential to the establishment of new route configurations to respond to changes in demand. Future RPT flights in the Northern Goldfields, direct or multi-legged, will aim to connect Perth with any of the five airports – Laverton, Leonora, Meekatharra, Mount Magnet and Wiluna airports.
- None of the RPT flights on the Northern Goldfields routes are currently subject to security screening, due to the small size of aircraft (under 20,000 kg) used to service these airports. Larger planes, such as a Fokker 50, will only be able to land at Northern Goldfields towns after the airports are upgraded to accommodate security screening operations. These upgrade works require substantial capital investment.

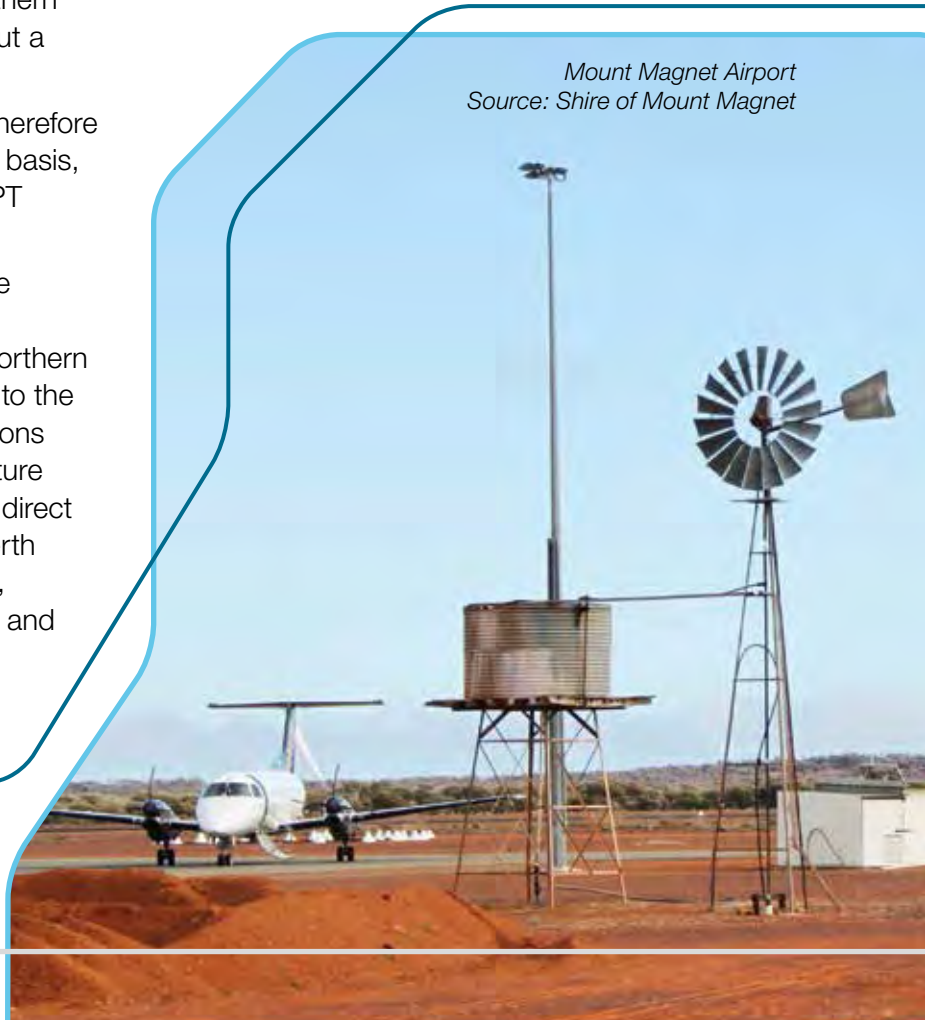
Final recommendation

Regulate air routes in the Northern Goldfields beyond 27 February 2016 and award rights to a single RPT operator for up to five years, subject to a route review of airline performance. Regulation may see either the maintenance of existing route connections or the establishment of new route configurations, direct or triangulated, between Perth and the following airports: Laverton, Leonora, Meekatharra, Mount Magnet and Wiluna.

AND

Discontinue Leinster as an RPT airport beyond 27 February 2016.

*Mount Magnet Airport
Source: Shire of Mount Magnet*



6.6 From Perth to Derby (Kimberley region)

Demand profile

Located nearly 1800 km north of Perth, and with a population of approximately 4800 people, the economy of the town of Derby and its surrounding mainland area is underpinned by the mining of diamonds and iron ore, gas and oil industries and pastoral activities. RPT air services, which have been provided between Perth and Derby since November 2006, continue to play a major economic and social role in the Kimberley region and are essential for the resources sector and local community.

The three major mining companies underpinning the RPT services on the Perth–Derby route are Mt Gibson Iron, Pluton Resources and Kimberley Diamond Corporation. Currently, the estimated life-span of the mines is three to four years (dependent on iron ore prices and available technologies).

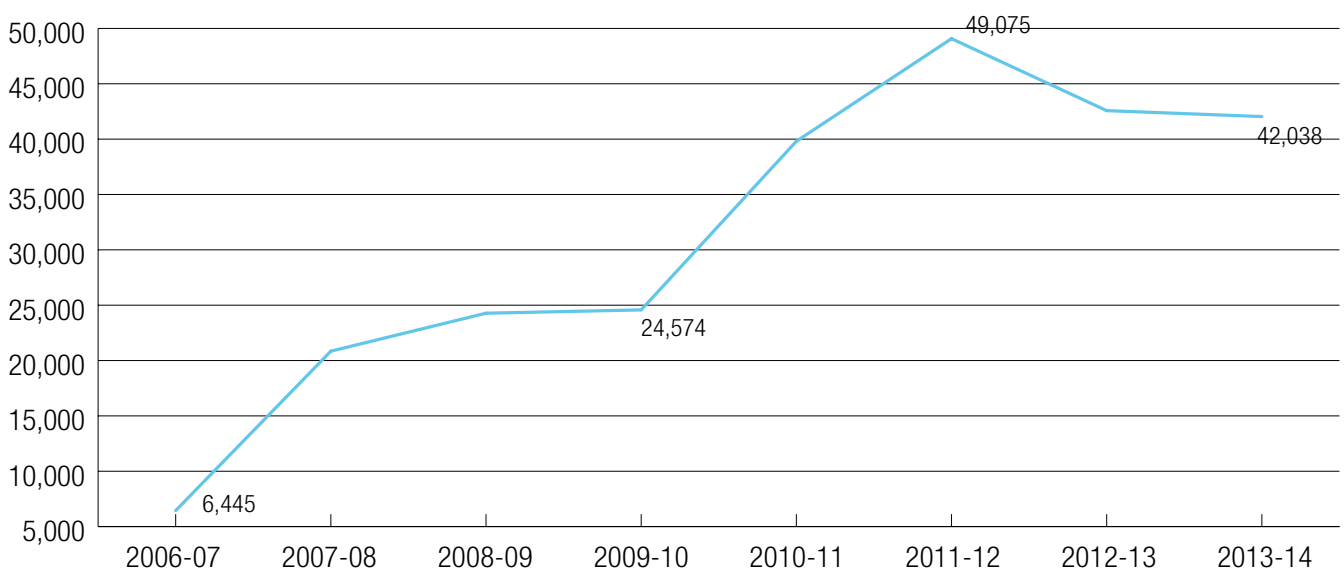
Previously some of the RPT traffic also comprised people associated with the nearby Curtin Immigration Detention Centre; however, demand from these passengers gradually declined and ceased completely following the closure of the detention centre in September 2014.

Table 10 and figure 7 provide a breakdown of the annual number of passengers on the route since the RPT services commenced. Since 2006, the Perth–Derby air route has grown considerably, reaching its peak of 49,075 passenger movements in 2011–12. However, the following year saw a decrease of 13.2 per cent when passenger movements at Derby fell to 42,573. This passenger demand declined further in 2013–14 and more so in late 2014, when all three mining companies reduced operations in Derby. In particular, in December 2014, Mount Gibson Iron announced large workforce reductions (over 200 workers) that have impacted passenger numbers.

Table 10: 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 |
| 2013–14 | 42,038 |
| <i>July Dec 2014 (half year)</i> | <i>18,295</i> |

Figure 7: Derby passenger movements



On-board flight surveys, with a sample size of approximately 200, were conducted on the route in 2013. The surveys revealed the following data from users of the RPT services:

- 59.2 per cent of all surveyed travellers are Perth residents, 18.3 per cent are Derby residents and 22.5 per cent are from somewhere else;
- 62 per cent of the non-Perth and non-Derby residents come from other states in Australia and the remainder (38 per cent) reside in other regions throughout WA;
- 75.6 per cent of all surveyed passengers travel for business purposes and of these, approximately half are from the resource industry;
- 14.3 per cent of surveyed passengers use the RPT flights for holiday or leisure purposes;
- 6.5 per cent of surveyed passengers use the RPT flights to visit friends and relatives; and
- 10.3 per cent of surveyed passengers living in Derby fly to Perth for medical reasons.

Services profile

The Perth–Derby route has been serviced by Virgin Australia Regional Airlines (VARA, which acquired Skywest Airlines) as a sole RPT operator since 2012. The RPT services have been provided between Perth and the Curtin RAAF base, which is about 30 minutes' drive from the Derby town centre. The airport is jointly used as an RAAF and civil airport and can accommodate a variety of large jet aircraft. Due to the lack of security screening facilities at the Derby General Aviation (GA) Airport, RPT operations into this airport are limited to aircraft weighing less than 20,000kg, as these aircraft are not subject to security screening.

The one-way flight between Perth and Derby takes two hours and 45 minutes. VARA has been providing five return RPT services per week (on weekdays), primarily using jet aircraft – either an Airbus 320 with a capacity of 168 seats or a Fokker 100 with a capacity of 100 seats. Community and industry stakeholders using the RPT services consider this number of weekly flights as adequate. However, due to a recent decrease in passenger demand from the resources sector, since 13 March 2015 the number of RPT services on the route has been reduced from five to four return services per

week (Monday–Thursday). In addition, the drop in demand has also led to VARA only using the smaller Fokker 100 aircraft on the route.

Regulatory considerations

The proposed regulatory approach outlined in the Review's Position Paper was to:

“Flexibly regulate the Perth–Derby (Curtin) air route beyond 27 February 2016 by allowing the potential entry of other airlines should there be a significant change in the region's economic circumstances”.

As part of the consultation process, formal feedback was received from regional stakeholders' submissions in response to the Review's Position Paper, as well as face-to-face discussions held at the Derby workshop in September 2014. Most submissions indicate general support regarding the proposed regulatory approach to the Perth–Derby route, although it has been highlighted that the State Government should exercise caution in fully deregulating the Perth–Derby route in the future. A flexible regulatory approach would see continued regulation of the route for up to five years unless interim economic changes in the region mandate a review of the route.

Some of the stakeholders' submissions indicate that there are positive expectations in respect to population growth arising from activities in the Browse and Canning oil/gas basins and new agricultural developments. Such economic trends can have a positive demand impact on the Perth–Derby route by allowing new airlines to enter the market. However, some concerns have been raised in regard to the precise demand volume 'trigger point', and the measurement tools to be employed by the State Government in evaluating future economic growth in the region, that would warrant opening the route to competition. This is a reasonable concern given the volatility of the resources sector and recent downturn in mining activities across the State. Furthermore, if two or more rival airlines were to specifically cater to the needs of the resources sector, there is the potential that flight schedules may be developed that only suit this market—for example, services may be provided multiple times on certain days of the week as required by the resource company rosters and leave the community without any flights on other days.



Fokker 100 cockpit

From this viewpoint, full deregulation should only be considered when there is clear evidence that the increase in passenger demand is sufficient to sustain airline competition with the provision of services reasonably spread across the week.

Experience in other states across Australia indicates that routes with fewer than 100,000 passengers per year are unlikely to have two operators. In New South Wales, only regional air routes with annual demand of over 100,000 passengers attract two or more operators. For example, Sydney–Armidale (with 114,380 passengers in 2013–14) and Sydney–Dubbo (with 181,500 passengers in 2013–14) are currently serviced by two airlines—Qantas and REX (Transport for NSW, 2014).

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 there is a relatively large corporate market using the services. While some feedback suggests that the potential addition of a second operator on the Perth–Derby route would dampen an airline's appetite to invest in the route over the long term, others believe that, given the relatively high number of annual passenger movements (over 42,000), the route would sustain competition in the current environment and potentially lead to more competitive airfares. Nevertheless, opening the route prematurely on this basis alone would be imprudent given the recent decline in demand. Moreover, the route is not immune to further reductions in mining activity or closure of mine sites in the future, which would be a significant threat to the viability of the RPT services.

While regional and remote communities generally welcome price competition, survey results indicate that 87.6 per cent of passengers deemed the current airfares in a regulated environment as acceptable. There is a view that, based on cost per kilometre, the current airfares on the Perth–Derby route are relatively low (15 cents per kilometre), approximating the airfares offered on the Perth–Broome route (19 cents per kilometre). The Perth–Broome services run in parallel to those on the Perth–Derby route and provide a certain level of real and perceived price competition.

A key element in shaping the future RPT services on the Perth–Derby route (which was raised during the Review’s consultation process) is the two airports in the Derby area—Curtin Airport, operated by the Commonwealth Department of Defence, and Derby GA Airport, owned and operated by the Shire of Derby/West Kimberley. The RPT services are currently provided at Curtin Airport; however, there is some potential for RPT services to operate at the Derby GA Airport in the future.

The potential use of Derby GA Airport may somewhat restrict the landing of certain size aircraft, due to the absence of security screening facilities. However, limiting RPT operations exclusively to Curtin Airport would not be prudent, as the RPT services may be affected by any future Commonwealth decisions about operations at Curtin Airport. The State Government considers the provision of RPT services to the regional community of Derby as a destination overall, irrespective of specific airport locations in the nearby area. Protecting the RPT services beyond 2016 to the township of Derby, as a whole, would provide flexibility to airlines and airport operators.

In light of the future possibilities for RPT operations to either or both airports in the Derby precinct, it is important to note that closed charter operations may be subject to various charter conditions placed on the airline licence. This is to ensure that the viability of the RPT services provided to Derby as a destination, rather than to a specific airport in the area, is not compromised. Part 7 provides details on charter operations and charter conditions.

Way forward

It is recommended that the Perth–Derby route be regulated for up to five years beyond February 2016. In the interest of accountability, fairness, equity and transparency, the route will be subject to a competitive tender process in 2015 through which a single airline will be appointed under an agreement with the State Government to serve the RPT route for up to five years.

The request for tender document will seek tenders from airlines for the provision of RPT air services between Perth and Derby (Curtin Airport and/or Derby GA Airport) that best meet the community needs and level of demand. In addition, bidding airlines will need to demonstrate their commitment to developing the route.

Consistent with current regulatory arrangements, the ensuing agreement between the State Government and the successful airline will see a capped airfare, a fixed schedule of air services, and a benchmark for on-time performance set. This means that should the airline operating the route wish to vary any of these parameters, it will need to seek the approval of the State Government to do so.

Under the conditions of the future airline agreement, a review of airline performance will be undertaken after two years (mid-term review). If the performance of the airline at that time is regarded as meeting requirements—in terms of frequency, reliability (on-time performance), affordability of air services (average fares), customer engagement and route development then the airline can continue as the sole operator on the route until the end of the five-year term. The possibility for extension of monopoly rights will provide an incentive for the airline to build new markets and grow the route. If, however, the mid-term review determines that the level of performance is not satisfactory, then the route could be re-tendered.

It should also be noted that if, at any time during the term of the agreement, there are significant economic and/or social changes in the Derby region and the Perth–Derby route has grown to a level that can sustain competition (approximately 100,000 passengers per year), then the State Government may, at its discretion, allow a second RPT operator on the route.

Highlights

- With approximately 42,000 passengers per year, current demand on the Perth–Derby route is sufficient for one operator only. Experience in other states across Australia suggests that routes with demand of less than 100,000 passengers per year are unlikely to sustain two operators.
- The predominant users of the RPT services on the Perth–Derby route are business travellers, mostly from the resources sector. The recent decline in demand on the Perth–Derby route, due to reduced mining operations in the region, has resulted in a reduction from five to four RPT air services being provided per week.
- The Perth–Derby route is generally attractive to airlines due to the route's length, its relatively high volume of passenger movements per year and the large corporate market using the route.
- Should significant economic and/or social changes occur or demand volume reach approximately 100,000 passengers per year in the future, the State Government may allow new airlines to enter the route, subject to a prior route review.

Final recommendation

Regulate the Perth–Derby (Curtin Airport and/or Derby General Aviation Airport) air route beyond 27 February 2016 and award rights to a single RPT operator for up to five years, subject to a route review of airline performance.





PART 7

CHARTER POLICY

Note: The charter policy discussed in this section refers to ‘closed charter’ air services.

7.1 Definition of charter air 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* (which 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 and 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” (CASA, 2009, p.2). In other words, the general public is currently 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), security screening of passengers and baggage on RPT flights is required for all aircraft weighing more than 20,000 kg; however, closed charters are not subject to security screening regulations regardless of aircraft size. Any operations that take 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 considered a closed charter). For example, if Fokker 100 jets currently used for closed charter operations were to provide RPT or open charter services (airline can sell seats to the general public), passengers and baggage will be required to undergo security screening.

It should also be noted that closed charters can be regular or ad-hoc. Regular charters refer to the provision of at least one charter service per week every week for a continuous period greater than three months. Ad-hoc charters are provided on an as-needed basis, usually for emergency purposes, once or several times per week but only over a short period for up to three months. For example, ad-hoc charters can arise from plant shutdowns at mine sites and therefore are not seen to impact on existing RPT services.

7.2 Demand for closed charters

Compared to most other states and territories in the nation, where demand for air services is typically for tourism and leisure purposes, in WA the greatest demand flights is for business purposes. The State’s economy is largely underpinned by the resources sector and its iron ore, gold and various mineral mining operations and oil and gas exploration, which also contribute significantly to Australia’s commodity exports. Across the State, the resources industry predominantly uses closed charter air services to transport FIFO personnel, although block-bookings of seats on RPT flights are also common.

More particularly, numerous mining companies transport their staff on closed charter flights in the Pilbara and Northern Goldfields regions. In some cases, charter operators fly directly to private mine-site airstrips. However, many charter operators fly their mining client passengers into RPT airports—and these charter flights into RPT airports can impact the viability of existing RPT air services.

In the Northern Goldfields region, demand for multiple weekly charter operations on regulated RPT routes between Perth and Meekatharra, Mount Magnet, Laverton, Leonora, Wiluna and Leinster was relatively high in 2012–13. However, in the last two years this demand for charters to some of these RPT airports has somewhat stabilised or declined. Some charter services have been suspended due to mine sites going into care and maintenance mode, which has reduced the need to transport staff. Other charter operations have completely ceased due to the closure of mining sites.

Given the current economic conditions associated with the recent slowdown in the resources industry, demand for future charter air services is difficult to forecast. The falling price of commodities such as iron ore, gold and nickel in recent months has led to reduced mining activities for a number of companies. This, in turn, has seen a reduced workforce and a resulting reduced need for charter flights.

7.3 Key reasons for use of charter services

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 RPT services are subject to meeting higher standards for the implementation of safety management plans, organisational structures, and policies and procedures.

It is also important to recognise that resource companies need the flexibility to negotiate flight times that meet company and FIFO workforce needs. The flight times preferred by the general public can be very different from those times required by a resource company. As such, many resource industry operators are unable to use existing RPT air services as the flight departure and arrival times are unsuitable. In addition, aircraft used for RPT services may not always provide the necessary seat capacity to accommodate demand from both FIFO and general public passengers.

Many resources 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. On time performance (OTP) of flights is generally considered adequate in the aviation industry if it is above 80 per cent. Some resources companies use charter flights instead of RPT flights, as poor OTP on some RPT services can sometimes result in undesired delays and even flight cancellations.

Despite the greater flexibility and efficiency of charter services, some mining companies have been able to switch from using closed charter services to using RPT services. For example, in September 2014 Ramelius Resources commenced using the RPT services between Perth and Mount Magnet twice weekly. Since then the passenger demand from Ramelius Resources has resulted in the Mount Magnet community receiving two direct services per week from Perth. In comparison to the previous schedule, which involved triangulated flights via Meekatharra, the direct flights to/from Mount Magnet have provided greater public benefits and have been welcomed by the local community.

7.4 Charter policy objectives

The State Government's long-standing 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. The State Government's position is to ensure the viability of RPT services for regional communities, while also seeking to meet the needs of the resources companies and minimise any cost on the resources and charter industries.

In the context of seeking to balance both the needs of the resource industry and the needs of the community, the objectives of the charter policy are to:

- maintain an adequate level of air services to regional communities;
- foster economic development for the resources sector in WA;
- minimise costs for the resources and charter industries; and
- adopt a consistent and transparent State Government policy in the interest of fair charter assessment and management.



7.5 Key charter issues

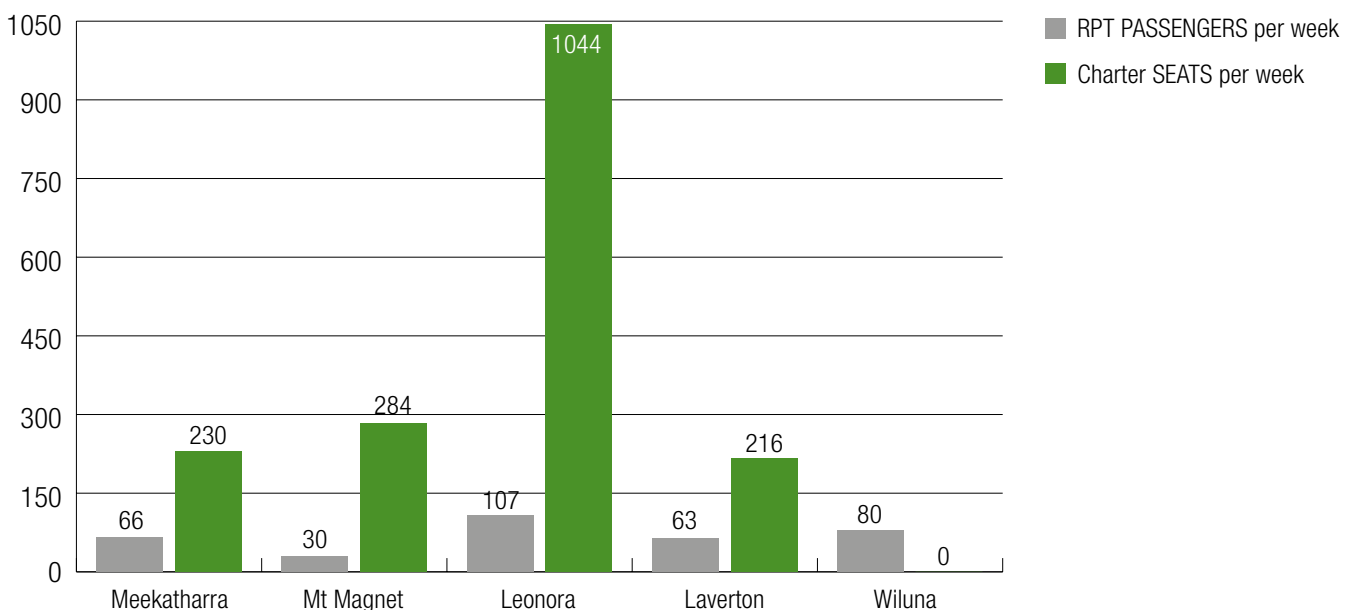
Despite the rise and fall of the resources industry over past years, numerous charter flights continue to operate in regional WA. Some of these charters are seen as a threat to existing RPT services. If charter operations expand in the future, some RPT flights currently available to regional communities may become unviable on both unregulated and regulated RPT routes.

The risk to the sustainability of the RPT services is particularly high on ‘thin air routes’ (that is, where passenger volumes on the RPT service are low), such as those in the Northern Goldfields region where the frequency of charter services is often higher than the RPT service flying to the same regional town. Furthermore, charter services are

sometimes provided in larger aircraft than the RPT service. Thus, the charter traffic volume significantly exceeds the number of travellers using the RPT service. This is clearly evident in figure 8, which represents data for the April 2014–March 2015 period.

The high volume of charter traffic over RPT routes, particularly in the Northern Goldfields, can be detrimental to the viability of RPT air services. Without regulation of charter operations, the RPT services are likely to be reduced to an inadequate level or even cease altogether, leaving some remote towns without a service. This issue necessitates regulation of charters where the extent of charter operations is likely to undermine RPT operations on a route.

Figure 8: Number of RPT passengers vs charter seats per week in the Northern Goldfields (April 2014–March 2015)



7.6 Application of charter policy and licensing conditions

Charter operations are regulated by various conditions being placed on the annual aircraft licences of charter operators. The intention of these charter conditions is to prevent reductions in passenger loads on RPT routes, which would affect the viability of the airline operating the RPT route, while allowing ad-hoc charters to operate for business, tourism or emergency purposes. There are three types of charter licence conditions.

1. **Standard** charter condition – this states that the charter operator must not make seats on the charter flight available to the general public, in line with Commonwealth legislation (CASA).
2. **Operational** charter condition – this stipulates the frequency, airport destinations (the route) and charter client in order to control where and how often charter airlines may fly within the State. A requirement for charter airlines to provide statistics on charter operations to the State Government is also specified.
3. **Special** charter condition – this requires the charter operator (through their charter client) to purchase a certain number of RPT seats operating over the same route as the charter. The number of RPT seats to be purchased is based on a nominal five per cent of the requested charter seats (based on aircraft size) to ensure the sustainability of the RPT service. The State Government, at its discretion, may vary this percentage to ensure that the objectives of the charter policy are met.

Requests for the provision of charter air services on all RPT routes may be:

- approved subject to standard and operational licence conditions only 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
- approved subject to standard and operational licence conditions as well as an additional special charter condition where passenger volumes are not deemed sufficiently high for the sustainability of the RPT service; or
- rejected where the viability of RPT services is at risk, that is, when the frequency of existing RPT services per week would become inadequate.

The application of the charter policy depends on the type of route on which charter operations are proposed, of which there are three types.

1. Non-RPT routes

Charter operators can, at any time, provide an unlimited number of closed charter air services on any non-RPT route, such as those to private mining site airstrips, **without seeking approval** from the State Government. However, charter airlines are still required to have a valid licence under the *Transport Coordination Act 1966* and *Transport Coordination Regulations 1985* and must provide written advice with details of their charter operations on non-RPT routes to the Department of Transport.

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 seeking approval** from the State Government. No special charter conditions will apply.

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

Depending on the traffic volume (that is, the annual number of passenger movements) on an unregulated RPT route, two categories of unregulated RPT route are used in order to determine whether the criteria for a *special* charter condition will need to be taken into account as part of the charter application assessment process.

- **Category A** – where an unregulated RPT route has **150,000 passenger movements or more** (in the 12 months prior to the charter application), the proposed provision of multiple charter services per week **will generally 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.
- **Category B** – where an unregulated RPT route has **less than 150,000 passenger movements** (in the 12 months prior to the charter application), the proposed provision of multiple charter services per week **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).

Compare, for example, the Perth–Learmonth route with an annual passenger volume of approximately 90,000 to the Perth–Karratha route that 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 an aircraft with 18 seats or less, on behalf of one client per calendar week, on any regulated RPT air route **without seeking 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 an 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 are permitted to operate on regulated routes.

7.7 Special charter condition

7.7.1 Purpose of special charter condition

In the historical and current aviation environment, the high volume of charter traffic operating on some regulated RPT routes in the Northern Goldfields has been seen as a threat to the viability of RPT services. This has resulted in a reduction in the number of passengers using the RPT services, necessitating changes to RPT flight schedules or the use of smaller aircraft on some Northern Goldfields routes. If the number of charters increases in the future this may have an even greater detrimental impact on RPT routes. Therefore, a *special* aircraft licence condition may be placed (unless exemptions apply) on charter services operating on unregulated or regulated RPT routes, where the risk of the RPT service becoming unviable is high.

Some charter operations were previously approved by the Minister for Transport or DoT with a *special* licensing condition that required the charter operator (or effectively their resource industry client) to purchase a certain number of seats on the RPT service from the RPT airline. As multiple charter operations over ‘thin’ regulated RPT routes (such as in the Northern Goldfields) are likely to have a negative impact on the viability of the RPT services, this *special* condition on the licence aims to provide some support to the existing RPT service. In this regard, the charter policy and the *special* charter condition could be seen as successful, insofar as there has been no need for the State Government to subsidise any of the RPT air routes in the Northern Goldfields, as the minimum level of RPT services has been maintained despite the marginal nature of the routes.

Arrivals at Nifty Airstrip
Source: Network Aviation



7.7.2 Application of special charter conditions

A *special* charter condition requires the charter operator (through their resource industry client) to purchase, at least one week 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 a third party (including to resource industry 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. Seats purchased on the relevant RPT flight directly by the resource industry client of the charter operator will be recognised by DoT 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 DoT is provided, as and when required, with proof of purchase of the RPT seats.

The Government reserves the right to change the charter policy at any time and provide for a wider scope for application of special charter conditions, should there be evidence that even if proposed charters are provided on days outside of the RPT services, they will still have a negative impact on the viability of RPT services on marginal routes.

It should also be noted that the *special* charter condition also applies when an airline provides both RPT and charter services over the same RPT route, that is, the purchase of seats on the RPT service will be required in order to provide closed charter services over the same RPT route.

7.7.3 Exemptions from special charter conditions

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

- when extraordinary circumstances arise, such as charter services for emergency purposes (ad-hoc charters); or
- 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 and be required to purchase a reduced percentage of RPT seats, or be fully exempted, in which case no RPT seats will be required to be purchased.

7.8 Discussion on the charter policy

The Review's Position Paper proposed a charter policy, which stated:

"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 less 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".*

As part of the consultation process, formal feedback was received from regional stakeholders' submissions in response to the Review's Position Paper, as well as face-to-face or phone discussions held in September and October 2014. The majority of consulted stakeholders generally support the regulation of charters in order to maintain an adequate level of RPT services to remote towns. In New South Wales, although licences for charters were abolished several years ago, the government continues to regulate charters by restricting operators from flying the same route more than four times over any 28 day period unless specifically authorised to do so (Transport for NSW, 2012).

Some stakeholders have expressed a view in their submissions on the Review's Position Paper that regulation that requires charter airlines to seek State Government approval for charter services provided once a week in small planes with 19 seats is somewhat excessive and unnecessary, and an administrative burden. This view arises from the assumption that this number of charter seats is relatively small and would not have a negative impact on the RPT services. However, it should be noted that 19-seater aircraft are the minimum size aircraft that are permitted to be used for RPT operations on regulated routes, and this already occurs on some RPT flights. As demonstrated in figure 8, the Northern Goldfields routes are marginal and even small-sized charter planes can

pose a risk to the RPT services. Thus, regulation of charters using aircraft with 19 seats has been chosen as the cut-off point in the charter assessments over regulated RPT routes.

While there is broad support from the charter and resource industries for adopting a consistent and transparent approach to regulating charter operations over regulated RPT routes, it has been highlighted by several stakeholders that sometimes assessment of future charter applications may need to be made on a case-by-case basis. This view takes into account the fact that each intrastate route has different characteristics and that the needs of resources companies in each region can vary significantly. It has therefore been suggested that blanket regulation of all charters operating across the State may not always be appropriate as it may unnecessarily impact on the efficiency of charter services and transportation of the FIFO workforce.

Taking into consideration previous complaints concerning the case-by-case assessment process for charter applications and its lack of transparency, the State Government aims to adopt, where possible, a more consistent, open and transparent approach to charter regulation that ensures a more equitable charter assessment practice. The State Government does however acknowledge that there are likely to be cases in the future where strict application of the charter





policy and blanket placement of predefined charter conditions may not be appropriate. In such instances, rather than adopting a uniform or 'one size fits all' approach to charter applications, exemptions will be considered. Therefore, where appropriate, charter assessment can be made on a case-by-case basis and may require consultation with the RPT airline, the community (represented through the respective local government) and other relevant stakeholders, in order to understand and take into account the possible effect of the proposed charter on the existing RPT service.

The placement of a *special* charter condition has been criticised in a number of stakeholders' submissions. Concerns have been raised that a *special* charter condition imposes extra cost on the charter and resources industries. 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 the charter operators who, in turn, pass the cost of the RPT seats onto the resource company using the charter service. Unlike big resources corporations, which generally have greater financial capacities, some small mining companies have highlighted that underwriting RPT services is a financial challenge for their relatively small business and is somewhat unfair.

The *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 companies and

their FIFO staff. The main reasons for the unused RPT seats are unsuitable RPT timetables 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.

Some industry stakeholders see the *special* charter condition as a heavy-handed regulatory approach, which unnecessarily increases their operational costs and is essentially an unfair subsidy for the RPT airline paid by resources companies. This has been highlighted specifically for very marginal routes, such as Mount Magnet and Wiluna, where there is a view that there is no genuine demand for RPT services to those towns to warrant regular weekly public flights. The feedback also highlights that, despite the RPT services being subsidised by the resources sector through the *special* charter conditions, the RPT services are still marginal. Furthermore, it has been stressed that the special charter condition compromises the needs of the resources companies and provides an unfair advantage to the RPT operator, an outcome that is at odds with State Government objectives to minimise costs on the resources sector and charter industry. However, without a *special* charter condition that requires the purchase of RPT seats, the high volume of charter traffic can undermine the viability of RPT services on marginal routes (particularly in the Northern Goldfields). Thus, the requirement to purchase seats on the RPT service is essential to ensure the continuation of RPT services for regional communities in the future.

Another issue raised through responses to the Review's Position Paper is that the *special* condition should not be applied on charter licences where new RPT services are instigated on a route after existing and long-standing charter services were already in place on particular days of the week. It is argued that a 'first in, best dressed' approach should be adopted and there are expectations that current charter operations would be given 'grandfather' rights to continue their operations without being subject to a special charter condition. For example, Onslow has historically received numerous charter flights and RPT services only commenced in late 2014; thus, a special charter condition should not be applicable, especially if the new RPT services remain viable.

In addition to this issue, some industry stakeholders have expressed a view that once an established RPT service is viable, any new resource industry operations that require the introduction of new charter services 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. Conversely, there is a risk that some passengers from the resources sector previously using the RPT services could switch to charter services, thereby reducing the volume of RPT traffic. Furthermore, even if a new mine operation does not result in a reduced number of passengers on RPT services, it is possible that over time there may be mine closures within the region, leading to reduced numbers of RPT passengers. If those RPT passengers are not replaced then, over time, the viability of RPT services will decline. As such, in the case of new mining operations the placement of a *special* charter condition on the charter operator's aircraft licence is regarded as appropriate and supports the objectives of the State for maintaining an adequate level of RPT air services for regional communities.

Conclusion

Charter regulation ensures that communities in remote locations can benefit from access to RPT services, which are essential for their wellbeing and lifestyle. The placement of a *special* charter condition on aircraft licences of charter airlines will ensure that the RPT services are supported and will remain viable. If charter operations expand in the future, without a *special* charter condition, some RPT flights may become unviable.

Highlights

- The State Government's priority is to maintain an adequate level of RPT air services while imposing the least possible cost on the charter and resources industries. Charter flights are regulated to ensure that they do not detract from the viability of RPT air services.
- The resources sector frequently uses charter services to transport the FIFO workforce and in many cases the volume of passengers on charters in WA is significantly higher than the volume of passengers on RPT services. This poses a risk to the RPT service, especially in the Northern Goldfields where the protected RPT routes are marginal.
- The charter policy provides for a more consistent and transparent approach to assessing charter operations in the future, although some assessment on a case-by-case basis may sometimes be appropriate to take into account the different dynamics of regional air routes.
- The placement of a special condition on the aircraft licence of a charter operator, where applicable, that requires the purchase of a certain number of RPT seats on the route to support the RPT service is essential for the sustainability of RPT air services in regional WA.

Final recommendation

In the interest of maintaining an adequate level of RPT air services, continue to regulate closed charter operations over RPT air routes. This includes the ability to place a *special* charter condition (unless exemptions apply) on aircraft licences to purchase a certain number of seats on the RPT service in 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 closed 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 closed charter service.



Aircraft on the runway at sunrise

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Aircraft taking flight
Source: Cobham Aviation Services



ATTACHMENT 1

ACRONYMS

| | |
|-----------------|--|
| ABS | Australian Bureau of Statistics |
| BITRE | Bureau of Infrastructure, Transport and Regional Economics |
| CASA | Civil Aviation Safety Authority |
| DITRD LG | Department of Infrastructure, Transport, Regional Development and Local Government |
| DoIRD | Department of Infrastructure and Regional Development |
| DPMC | Department of the Prime Minister and Cabinet |
| DRD | Department of Regional Development |
| DoT | Department of Transport of Western Australia |
| FIFO | Fly-in-fly-out (staff, workforce) |
| GA | General Aviation |
| GDS | Global Distribution System |
| OTP | On-time performance |
| OTS | Office of Transport Security |
| RAAF | Royal Australian Air Force |
| RPT | Regular Public Transport |
| VARA | Virgin Australia Regional Airlines |

Bristow Helicopter on site



ATTACHMENT 2

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 | <p>A service in which:</p> <ul style="list-style-type: none">→ the operations are conducted in accordance with fixed schedules to and from fixed terminals; and→ the accommodation in the aircraft is not available for use by persons generally (as defined by CASA). <p>Regular charters are those provided weekly for a minimum three months. Ad-hoc charters are those provided on an as-needed basis, usually for emergency purposes, once or several times per week but only over a short term and up to three months.</p> |
| 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, cease to exist, thereby having a detrimental impact on the living 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 of flights which arrive within 15 minutes of the scheduled time of arrival. The OTP benchmark stipulated in existing deeds between airlines and the State Government is 80 per cent. |
| RPT service | <p>A regular public transport service that operates according to a published schedule as defined under the <i>Western Australian Transport Coordination Regulations 1985</i>.</p> <p>Under CASA legislation an RPT services are “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. |

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