

28 July 2017

Dr David Worth
Principal Research Officer
Economics and Industry Standing Committee
Legislative Assembly Committee Office
Level 1, Harvest Terrace
West Perth WA 6005

Dear Dr Worth

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA

The Chamber of Minerals and Energy of Western Australia (CME) welcomes the opportunity to provide a submission to the Economics and Industry Standing Committee's inquiry into regional airfares in Western Australia (the inquiry).

CME is the peak resources sector representative body in Western Australia (WA). CME is funded by its member companies who are responsible for most of the State's mineral and energy production and are major employers of the resources sector workforce in the State.

In 2015-16, the value of WA's mineral and petroleum production was \$87.9 billion. Iron ore accounted for approximately \$48 billion of production value to be the states most valuable commodity. Petroleum production (including LNG, crude oil, condensate, natural gas and LPG (butane and propane)) followed at \$18.4 billion with gold third at \$10 billion¹.

The resources sector is a major user of regular public transport (RPT) air routes in the movement of employees to areas of operations which are usually in regional areas. The resources sector utilises a number of the unregulated regional RPT air routes from Perth to the following locations:

- Broome
- Geraldton
- Kalgoorlie
- Kambalda
- Karratha
- Kununurra
- Newman
- Onslow
- Paraburdoo
- Port Hedland
- Ravensthorpe²

Findings and recommendations

CME requests the Economics and Industry Standing Committee consider the following findings and recommendations:

- The Minister for Local Government should ensure local governments are transparent in the setting of airport fees and charges, reporting of the value of revenue generated through these

¹ Department of Mines and Petroleum, 2016 *Mineral and Petroleum Industry 2015-16 Review*, <http://www.dmp.wa.gov.au/About-Us-Careers/Latest-Statistics-Release-4081.aspx> pg. 1

² Department of Transport website, <http://www.transport.wa.gov.au/aviation/air-services.asp>

fees and charges and ensure this revenue is not used to cross subsidise other local government services.

- The setting, use and reporting of local government airport fees and charges should be considered in the Department of Local Government, Sport and Cultural Industries' review of the *Local Government Act 1995*.
- Access to cost-effective regional RPT air routes are essential for resources companies to remain competitive and enable transport of workers to their workplaces.
- The certainty provided by corporate contracts enables the aviation sector to maintain frequent flights on regional RPT air routes with capacity higher than would otherwise be expected. Without corporate contracts, many regional RPT air routes would not exist. Likewise, maintaining capacity on regional RPT air routes is essential for the resources sector to guarantee availability of workforce transport.
- It is critical to the resources sector that capacity and frequency of RPT air routes in regional areas are not adversely impacted by unintended consequences due to regulatory action.
- Consideration should be given to a scheme that enables local residents to access seats on regional RPT air routes at a reasonable cost while not adversely impacting the viability of regional RPT air routes nor access to the flights utilised by resources companies. These schemes should be funded by government without any additional cost impost being imposed on industry.

Local Government Imposed Airport Fees and Charges

In recent years, broadly declining prices for mineral, metal and petroleum commodities, and Australia's comparatively high construction and operation costs, have dramatically increased the pressure on resources sector companies. In response, companies have made substantial efforts to increase productivity by improving business processes and reducing costs within their control. However, reforms to reduce regulatory burden and costs imposed across all levels of government remain vital to ensure Australia continues to be a competitive business destination for globally mobile investors.

Both the Australian Government and State Government have committed to reducing regulation, and the resultant costs on companies, previously through legislative repeal days and more recently through reviews and annual performance reports. However, resources sector companies have seen substantial increases in costs imposed by local governments, many of which have sought to increase revenue through fees and charges. While local governments have faced financial pressures, the response of many appears to be in contrast to private sector companies and other levels of government, which have been to cut costs and improve efficiency.

Multiple factors contribute to the high cost of regional airfares in WA, including the cost of operating and maintaining aircraft in regional areas, logistics of fuel and catering in remote areas, and lower passenger numbers following the economic downturn. An additional significant contributor to the high cost of regional airfares are airport fees and charges imposed by local governments.

Figure 1 shows an example of the high fees and charges at airports owned by several regional local governments in WA. For comparative purposes, fees at Mount Isa regional airport in Queensland are also included, which are significantly lower than the fees charged at regional airports in WA. These high fees have resulted in additional payments by the airlines, which is reflected in higher airfare prices.

Currently, local governments do not always provide details on the costs associated with maintaining and running airports to justify the fees and charges imposed by them. When setting airport fees and charges, local governments should be required to make the methodologies, objectives and reasons publically available.



Figure 1 – Example of fees and charges at selected WA airports (2016-2017)³

In most cases, local governments hold a monopoly on airports within their region, with no other air access available beyond the local government operated facility, unless resources companies build their own airport. This position enables local governments to raise considerable revenue through their airports.

There is currently inconsistency in how this revenue is reported in the local government annual financial reports, with some itemising it specifically and others incorporating it into broader revenue line items. In addition, costs associated with the running and maintaining regional airports is not itemised resulting in a situation where it is difficult to determine whether the funds are being used to maintain airports/airport services or are supporting cross-subsidisation of other local government projects and facilities.

Local governments should be held accountable for the use of revenue raised by airport fees and charges and ensure it is allocated towards aviation related activities, rather than being directed into general revenue streams.

The Australian Competition and Consumer Commission (ACCC) regularly monitors and reports on the fees charged at major domestic airports in Australia in comparison to the quality of the airport facilities (e.g. standard of maintenance, cleanliness). The ACCC considers an acceptable outcome to be higher service ratings and comparatively lower airport fees.⁴ Similar monitoring of airports operated by WA local governments may assist in ensuring the standard of the airports is consistent with the magnitude of fees charged.

The Minister for Local Government should ensure local governments are transparent in the setting of airport fees and charges, reporting of the value of revenue generated through these fees and charges and ensure this revenue is not used to cross subsidise other local government services.

CME strongly recommends **the setting, use and reporting of local government airport fees and charges should be considered in the Department of Local Government, Sport and Cultural Industries' review of the *Local Government Act 1995*.**

With many resources sector companies reliant on regional RPT air routes to transport workers, increasing costs in relation to airfares places significant pressure on companies which are already

³ Data collected from schedules of fees and charges published on local government and airport websites.

⁴ Australian Competition and Consumer Commission, *Airport Monitoring Report 2015-16*. Retrieved from: https://www.accc.gov.au/system/files/2015-16%20AMR%20revised%206%20March_0.pdf

finely balanced in a high-cost and low-return economy. If WA is to remain competitive in the global market, the cost of doing business in the state needs to be reduced, including airport fees and charges imposed by local governments.

Fringe Benefits Tax (FBT) and regional airfares

There has been some discussion regarding the impact of FBT deductions for FIFO workforces on the cost of regional airfares. FBT was introduced in 1986 and exemptions were provided for goods that would otherwise be taxable for FBT purposes as a means of supporting employment in regional and remote areas.

The provisions were made on the basis goods were either so necessary to the working arrangements in question they should not be considered of a genuine remuneration nature, or they should be supported from a policy perspective to assist employers that would otherwise have difficulty in attracting the necessary skills to locations involving relatively higher degrees of isolation. Deductions for employees' long distance commute flights to remote areas, including offshore petroleum installations, has been a feature of the scheme since its introduction in 1986. The ruling for income tax and fringe benefits tax deductions specifies expenses which would be deductible by an employee, but are incurred by an employer, are otherwise deductible to the employer under the *Fringe Benefits Tax Assessment Act 1986*⁵.

These deductions were recognised as being necessary and appropriate in connection with long distance commute arrangements. The FBT deductions for resources sector companies are no different to those a politician, for example, would be afforded in travelling to Perth during parliamentary sitting weeks. The final report from the Productivity Commission's 2014 inquiry into geographic labour mobility did not make any recommendations to change the current FBT arrangements. However, it summarised:

*The current [fringe benefits tax] regulations aim to distinguish between genuine business operating costs (that is, cases where benefits such as housing or travel are essential for employees to perform their role) and other more private types of benefits. This approach appears appropriate in the context of broader fairness objectives.*⁶

The geographic location of resources is not a variable which resources companies are able to negotiate. Workers must be transported to the location of the resources projects, which are often in remote locations with no other viable access for workers other than via aviation routes. Access to regional RPT air routes are essential to the business operation of many resources sector companies in order to transport their workers. The FBT deduction recognises the imperative nature of these flights to the sector, and ensures that business are able to continue in an economically viable manner.

Furthermore, the cost of transporting workers is one factor amongst many which companies consider when making a decision to transport a FIFO workforce. The main factors, which are not mutually exclusive, in companies determining which combination of FIFO and residential workforces are most appropriate includes:

- Location of the work – whether the project is remote or in proximity to an established town, and whether the project is fixed (i.e. a single operational site) or variable (utilising rail or port).
- Safety – A common concern amongst resources companies is the distance between project sites and the closest community. There is inherent risk involved where workers are required to drive extended periods, often on unsealed regional roads, before and after shifts, which need to be managed.

⁵ Australian Taxation Office, Draft Taxation Ruling TR 2017/D6, Income tax and fringe benefits tax: when are deductions allowed for employees' travel expenses? Retrieved from: <https://www.ato.gov.au/law/view/document?DocID=DTR/TR2017D6/NAT/ATO/00001>

⁶ Productivity Commission, 2014. *Geographic Labour Mobility*. Melbourne: Australian Government, p. 256.

- Required skillset – Whether the local workforce has the capacity and skills required to meet all the demands of the project. Even where the workforce is primarily residential, companies may engage employees on a FIFO basis to fill a gap when specific technical skills or professional experience cannot be sourced locally.
- Nature of the role – whether the project is in an operational, shutdown or construction phase has significant bearing on workforce choice. The latter two are variable or fixed term, and therefore more likely to be serviced primarily by a FIFO workforce.
- Shift duration and roster configuration – Companies manage and configure shift patterns in adherence with the WA Government’s *Code of practice: Working hours*⁷. Bussing workers in and out of nearby towns for example can add significant travel time on top of a shift, and needs to be assessed for potential impacts on worker fatigue.
- Availability of appropriate quality accommodation – the quality of housing for workforces varies widely in regional areas. CME has noted that one of the most significant impediments to offering roles that are more residential is the availability of quality housing.

While cost factors are considered, on a high-level comparison of items such as accommodation costs (capital & maintenance versus provision of housing) and transport (flight, buses versus relocation expenses) these come out relatively close and hence tend not to be weighted with a material priority or in isolation to the factors above.

Access to cost-effective regional RPT air routes are essential for resources companies to remain competitive and enable transport of workers to their workplaces.

Influence of resources sector on availability and frequency of flights

A lack of understanding around the FIFO passenger market and corporate contracts is leading to a perception these two factors result in higher regional airfares. Many regional aviation destinations commenced as a result of, and are predominantly utilised by, the resources sector. By nature of the remoteness of resources deposits and vast distances between regional and metropolitan centres where workers reside, the only way to efficiently access resources projects is by air.

The contrast between large, highly mobile construction workforces employed for a short timeframe and smaller operational workforces over longer timeframes, means it is unrealistic for construction workers to take permanent residence in remote communities. Subsequently, the FIFO workforce model developed as a method for safely and efficiently transporting large numbers of workers to remote locations.

Many resources projects operate in regions where, if it were not for the presence of the resources project, regional RPT air routes at their current frequency and capacity levels would not occur. Economies of scale exist whereby frequent and higher capacity (in comparison to smaller charter aircraft) flights can be maintained due to the high throughput of FIFO passengers on regional RPT services.

Local residents are able to access these flights due to a resources project operating in their region. If the resources projects were not present these flights would likely be replaced, if occurring at all, by less frequent services on smaller aircraft. Carrier competition on such routes would be unlikely due to low passenger numbers, and when coupled with the use of smaller less efficient aircraft, would result in higher prices than current rates.

Furthermore, the use of corporate contracts to ensure availability of seats on regional RPT air routes for resources projects are substantially underpinning many regional RPT air routes. The demand for seat allocations by the resources sector on regional RPT air routes has resulted in commercial aviation carriers operating larger aircraft to regional locations.

This arrangement is possible due to the certainty provided through corporate contracts and advanced notification of seat numbers required on the flights for workers. Without the certainty

⁷ Retrieved from: http://www.dmp.wa.gov.au/Documents/Safety/MSH_COP_WorkingHours.pdf

provided through these contracts, it is unlikely the larger operators would continue on these routes based on residential or recreational passenger markets, which provide less volume, certainty and frequency.

The certainty provided by corporate contracts enables the aviation sector to maintain frequent flights on regional RPT air routes with capacity higher than would otherwise be expected. Without corporate contracts, many regional RPT air routes would not exist. Likewise, maintaining capacity on regional RPT air routes is essential for the resources sector to guarantee availability of workforce transport.

Industry regulation

CME considers increased regulation of the regional aviation industry would ultimately lead to less competition and drive cost of airfares up for all users. Regulation may potentially hinder the ability of resources sector companies to negotiate appropriate contracts and maintain a competitive business position.

An open market which allows for competition amongst aviation providers, and business negotiation between aviation providers and resources sector companies, is preferred. However, in some instances where there are thin markets it is necessary to restrict access to enable those routes to be economic (i.e. Perth to Albany).

It is critical to the resources sector that capacity and frequency of RPT air routes in regional areas are not adversely impacted by unintended consequences due to regulatory action.

Airfare subsidy schemes

Various subsidy schemes exist within Australia which would assist residents in regional areas to access flights at affordable prices. Examples of existing schemes for consideration include the Far North Queensland Local Fare Scheme⁸, and the Airservices Australia Enroute Charges Payment Scheme. The Far North Queensland Fare scheme provides residents in remote parts of Cape York and the Torres Strait with a government subsidy of up to \$400 on regional flights with no requirement for advanced booking of seats. The scheme aims to improve the standard of living in regional and remote areas, by enabling residents to travel as required, and subsequently enable social and recreational activities which will boost the economy of the region.

Under the Airservices Australia Enroute Charges Payment Scheme⁹ the Federal Government supports routes with low volumes in regional and remote areas. Airlines may nominate a RPT air route according to criteria (including a volume less than 15, 000 passengers per annum and the route operates to a Regional and/or Remote location, as defined by the Australian Standard Geographical Classification). Accepted routes can obtain government assistance for up to 60 per cent of the enroute charge and up to 100 per cent for new routes for a period of up to three years.

These examples benefit residents where resources companies are not operating, although similar benefit schemes for residents in regions where resource companies operate could be investigated and developed.

Consideration should be given to a scheme that enables local residents to access seats on regional RPT air routes at a reasonable cost while not adversely impacting the viability of regional RPT air routes nor access to the flights utilised by resources companies. These schemes should be funded by government without any additional cost impost being imposed on industry.

⁸ <https://www.tmr.qld.gov.au/Travel-and-transport/Local-Fare-Scheme-Far-North-Queensland.aspx>

⁹ Australian Government *Airservices Australia Enroute Charges Payment Scheme Guidelines*. Recovered from: https://infrastructure.gov.au/aviation/regional/payment_scheme/index.aspx

Conclusion

CME acknowledges the important role regional aviation plays in the resources sector by transporting workforces across vast distances in WA. CME encourages the Economics and Industry Standing Committee to consider the business imperative of cost effective, reliable and frequent services in the resources sector.

Should you have any questions regarding the issues raised in this submission, please contact Ms Caroline Cherry, Manager Economic Competitiveness on 08 9220 8514 or C.Cherry@cmewa.com

Yours sincerely

A handwritten signature in black ink that reads "Nicole Roocke". The signature is written in a cursive style with a large initial 'N'.

Nicole Roocke
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