



Economic, Social and Environmental Sustainability in the Indian Ocean Territories

City of Karratha Submission

Opportunity to increase economic and social sustainability of the Indian Ocean Territories (IOT), through the facilitation of a direct air connection with the Pilbara region of Western Australia.

Proposal

The Federal Government have an agreement in place to underwrite/financially support a return passenger air service from Perth to Cocos (Keeling) and Christmas Islands. These flights are currently operated by Virgin Australia (VA).

At present, these flights often stop to refuel in Learmonth (Exmouth, WA) on their way north. There is no ability for passengers to board or disembark at Learmonth.

This proposal recommends to formally transit this service through Karratha (WA). Doing so appears both feasible and beneficial for a number of reasons.

In regard to feasibility:

1. Passengers are unable to board or disembark at Learmonth due to the lack of appropriate customs and quarantine services. Karratha, however, is uniquely positioned to facilitate customs and quarantine requirements, given both Australian Quarantine and Inspection Service (AQIS) and Border Force officials are located at the Port of Dampier, 10 minutes by road from the airport;
2. Karratha Airport has all the necessary infrastructure in place for customs and quarantine activities to be undertaken;
3. All refuelling requirements can be facilitated;
4. Karratha is one of the closest alternative airports to Learmonth, only marginally increasing flight time; and
5. Karratha has the population base and established services to support the service and the Cocos (Keeling) and Christmas Island communities.

Formally transiting the service through Karratha will result in better connected communities and more integrated economies in the north where size and isolation are great challenges to building critical population and consumer market mass. It has the opportunity to open up significant benefits for residents and businesses in the Indian Ocean Territories (IOT). These benefits are explored in greater detail below but principally, it would result in better regional integration with Australia's North West by supporting expanded movement of people and goods and stimulating new economic activity between regions. This proposal also has potential benefits to residents and businesses throughout the State of Western Australia.

More so than ever before, the Pilbara region is one of the key driving forces of the Australian economy. With a GRP of \$46.6bn, mineral and petroleum sales approaching \$140bn per annum and a pipeline of project CAPEX exceeding \$150bn over the next decade, it will remain critical to the nation's wellbeing for some time. A direct link to the IOT has the potential to address a number of the challenges which the region is currently facing and ensure investment and opportunities in jobs and diversification is not lost.

Benefits to the IOT

Tourism – The IOT will benefit from an increased number of Pilbara-based tourists to the region. Tourism opportunities for Pilbara residents are presently limited to driving holidays in the North of the state or taking an expensive connecting flight to Perth before any onward flight. With a median return flight to Perth costing \$800, a family of four would see themselves \$3200 out of pocket before they've even got on a plane to their destination. Enabling a direct flight to a desirable holiday destination, at a cost-effective price, would likely be very attractive to Pilbara residents and we would anticipate significant take-up of this opportunity.

Passenger surveys done by Karratha Airport in 2016/17 identified that 56% of the respondents had taken 2 or more international trips in the past 12 months and 87% of those trips were for leisure. Around 87% of the respondents also confirmed that they would take additional trips if there were additional destination options were available. The survey also identified that 63% of the respondents were agreeable to pay a premium to travel direct out of Karratha instead of travelling to Perth to connect to other destinations.

Noting that residents of the Pilbara region have the highest median income in the state, these visitors would have the potential to bring in significant tourist dollars to the IOT.

There is also opportunity to bring in increased tourist traffic from Perth by packaging up a multi-stop trip, which takes in the Pilbara and the IOT. Showcasing the rich cultural heritage (largest growing tourism sector) along with the marine attractions of the Pilbara, alongside the marine and nature-based opportunities in the IOT. The IOT could ultimately form part of a network of intra- and inter-regional air routes that could link other tourism sites such as Exmouth, Ningaloo and Broome through Karratha thus providing additional sources of volumes of potential tourists to the IOT. This is likely to evolve over the next decade as the nature of air travel and air connectivity evolves to see direct air travel from Karratha to hub points in Asia such as Singapore with connections to Port Hedland, Newman and Broome established. These inbound/outbound flights could be linked to domestic flights to/from major centres such as Perth and northern locations offering clients a seamless air itinerary within Western Australia.

The proposed stop over flight will complement and support significant State and local Government investment to open up the Pilbara region for tourism opportunities and capitalise on some of Western Australia's most significant tourism assets of Karijini National Park and the rock art on the Burrup Peninsula. Specifically, it would provide further tourism demand to capitalise on the investment in the Manuwarra Red Dog Highway (final stage scheduled to be completed in 2023) to connect Karratha with Karijini National Park, and the road to, and proposed Living Knowledge Centre in Murujuga National Park (also scheduled to be completed in 2023).

This is a wholly domestic proposition and would not be impacted by international border closures.

Access to State Government services – An improved link between Karratha and the IOT will improve IOT access to State Government services and personnel including utility and community services. As Karratha serves as a regional base for a number of State Government agencies, despatching service personnel from Karratha would improve cost efficiency and speed of access to service support for IOT residents. State Government agencies that have jurisdictional coverage over the IOT include the Department of Health, Department of Education, Department of Communities supporting child protection and family services, Department of Fire and Emergency services, Main Roads and Water Corporation. A full list of government agencies with service and support responsibilities towards the IOT is provided here: https://www.regional.gov.au/territories/indian_ocean/sda/services.aspx.

Better access to the IOT from Karratha would provide the ability to better respond to IOT community needs and provide access to the key services.

Access to medical services – Karratha is home to excellent health care services. Opened in 2018, the \$173 million Karratha Health Campus is the biggest investment in a public hospital ever undertaken in regional WA. It has an expanded emergency department, a new CT scanner, a brand new surgical centre, new delivery suites and maternity wing, world-class Telehealth services, new and expanded outpatients and essential services such as child health and medical imaging, all under one roof.

Enabling a weekly service at half the flight time and a smaller cost would enable residents of the IOT better access to affordable healthcare.

Access to Education – Karratha boasts excellent public and private schooling options for students of all ages. The addition of a residential college, which will enable boarding for students, is on track to be available in the region and would allow students from the IOT access to these institutions.

The Pilbara University Centre, located in Karratha, is the geographically closest tertiary education offering to the IOT. This federally funded centre provides a unique learning environment through which students gain access to educational support, application and enrolment assistance, guidance on courses and pathways, connections with local industry, comfortable and modern facilities to study and connect with other students, as well as administrative and student support. The new flights would provide the ability for students to do in-person tuition for a designated period with less cost and time imposition than studying with a Perth based institution.

Other benefits include better access to the TAFE vocational training campus in the city as well as increased connections with research partners through the multiple CRCs which are currently active in the Pilbara.

Access to FIFO and short-term residential jobs – The Pilbara region currently has more than 1,500 jobs advertised as vacancies and a pipeline of private project investment with a CAPEX of over \$150bn AUD over the next decade. It is expected that there could be an additional 6000 jobs created in the region by 2030 as through development of new industries and new mining activity.

The cumulative demand from new projects, difficulty in attracting workers to the region and constraints to local training programs are likely to create significant labour shortages in the short to medium term in what is already a tight labour market. With this comes significant opportunity of employment for residents of the IOT, who will be able to connect directly into the region on a consistent basis.

Workers in the IOT already have strong mining and marine skillsets, which would be extremely desirable in the coming period. However, it is important to note that not all available jobs in the Pilbara require specialist skillsets and it is often the service sector vacancies which are the hardest to fill during periods of increased demand, therefore opening up opportunities for everyone no matter their current level of training.

Freight – The major port for the shipment of supplies to the Australian Indian Ocean Territories is from Fremantle, Western Australia. This is a multi-day sailing of over 2,600km. Air freight is also undertaken via Perth. This means that a vast majority of goods entering the IOT from Asia will do so by sailing past the islands to Fremantle before flying or being shipped back up.

The Pilbara boasts 3 direct freight services with Singapore, two of which come into Karratha (Dampier). There is an opportunity to utilise the new air connection and bring freight directly into Dampier before

flying out to the IOT. This has the opportunity to dramatically reduce freight times on many products, as well as open up the potential for exports, which could feasible reach Asian markets in a fraction of the time it would currently take.

A direct maritime freight service from the Pilbara linked by air to the IOT has the potential to stimulate new export orientated commercial activity on the IOT given the access to markets the direct maritime freight services offer IOT residents. Such industries could include niche horticulture products.

Investment – As previously discussed, the presence of major iron ore and oil & gas companies in the Pilbara region means capital investment in the region is at a scale unlike anywhere else in Australia. There is a known pipeline of project CAPEX exceeding \$150bn over the next decade. Increased links provided by the new air service and exposure of Pilbara operators to opportunities in the IOT has the potential for increased economic benefits to flow into the IOT.

New residents – There is a small but significant number of workers in the Pilbara who live and work in Indonesia and other South East Asian countries. Although the IOT does not have the same cost profile of Bali for example, offering a direct connection to an island lifestyle, without a transit through Perth could again be a very attractive proposition and may see highly paid, highly skilled workers consider the IOT as an alternative base.

Benefits to the Pilbara & Western Australia

Tourism – Opportunity to establish a tourism package which brings visitors (starting in Perth) on a multi-stop trip through the Pilbara and onto the IOT. The Pilbara tourism offering is currently immature due to the dominance of major industry in the region and the elevated cost-profiles which often comes with this. Increasing tourist traffic from Perth would allow a maturation of this sector and increase diversification of the region's economy.

Liveability – Establishing a direct connection to a desirable holiday destination will be seen as a key step up in the liveability of the region. Both government and major industry are currently in a drive to increase the liveability of the region, in a bid to make it more attractive for a residential based workforce. This move would allow them to transition away from the current over-reliance on FIFO workforces. Yara Pilbara (the industry partner in this proposal) has expressed their desire to see this offering materialise and intend to market this as a key liveability benefit.

Alleviating skills shortages –Skilled labour shortages put upward pressure on wages and prices, increasing business costs across the economy and increasing the cost of doing business in the region which remains a major inhibitor on diversifying economic activity While large LNG and iron ore projects can often cope with these higher costs, thanks to mega-profits and economies of scale, other industries are likely to be less resilient. Labour shortages in 2008-2012 reinforced the concentration of the Pilbara economy during the last investment cycle, as LNG and iron ore projects monopolised available skills. If nothing is done to alleviate skills shortage risks in the coming investment cycle, through worker attraction and local training, the economic diversification achieved in the aftermath of the previous cycle will regress and marginally viable projects will be forced to withdraw due to escalating costs. Enabling access to workers based in the IOT has the potential to be another mitigator to these impacts.

Benefits to others

Virgin Australia/Federal Government – The increased pax on the route will increase the financial viability of the route and could potentially lessen the burden on the Government subsidy of the route, depending on the contractual arrangement. It may also change the configuration of regional airline

networks particularly if FIFO traffic diminishes as expected over the next decade. This may lead airlines to look at different aircraft and movement models. The post COVID-19 environment may present some opportunities to boost regional airlines. It is likely that modern aircraft may come into the market at a discounted price as airlines fail. Similarly, regional routes may be vacated by some established players. These both present opportunities for new entrants who can achieve better operational efficiencies with newer aircraft requiring less maintenance costs and diminished competition.

Economies of scale could be achieved by shared assets amongst mining, freight and commercial movement. Operating the right type of aircraft (i.e. A320s which would be ideally suited to containerised freight) would be essential to the viability of such a model.

Potential Barriers

Contact was previously initiated with the Federal Government Department of Infrastructure, Transport, Regional Development and Communications (DOITRDC) who are responsible for the Government's underwriting arrangement with VA for the IOT.

DOITRDC informed that the option of using Karratha airport as an alternative to Learmonth had been explored in the past. The primary reason that this option was deemed 'not viable' at the time was the 'workable hours' limit of VA crew.

Civil Aviation Safety Authority (CASA) regulations impose limits on 'workable hours' on aircraft operators, including VA, to manage pilot and crew fatigue. The current round-trip service to the IOT already flies perilously close to the maximum workable hours permitted under CASA regulations (and can actually exceed the existing limit depending on weather and operational factors, as permissible under CASA regulations). Any further delays to this service, as would be likely if additional passengers and baggage were to be loaded/unloaded, would almost certainly breach the 'workable hours' limit.

The Commission suggested that a crew change in Karratha on the return leg would remove the workable hours issue and would be a cheaper option to facilitate than stopovers in the IOT. Essentially this would mean an additional crew meeting the return flight in Karratha.

Given the high numbers of daily flights servicing Karratha this should not be an issue from a feasibility perspective. The push-back would come from a cost argument.

While there would undoubtedly be a financial cost of facilitating this change, we believe the benefits of the change would far outweigh these costs. The airlines have benefitted significantly from operator routes into and out of the Pilbara region and residents and workers are still paying some of the highest costs of any regional routes in Australia. Wearing the cost of the proposed change to this service does not appear to be major issue.

Also noting that the crew change option would provide additional flight hours opportunities for Virgin pilots, who have seen their hours significantly reduced during COVID-19.

Partners in support of this proposal

This proposal has strong support from all three levels of Government, as well as industry (both major industry and the small business community). This includes:

- Pilbara Development Commission – State Government
- City of Karratha – Local Government
- RDA Pilbara – Federal Government
- Karratha and Districts Chamber of Commerce and Industry
- Business Centre Pilbara
- Major Industry – Yara Pilbara
- Pilbara Tourism Association