

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 18 SEPTEMBER 2017**

SESSION SIX

Members

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

Hearing commenced at 3.20 pm**Mr STAN QUINLIVAN****Chief Executive Officer, Skippers Aviation Pty Ltd, examined:**

The CHAIR: On behalf of the committee, I would like to thank you for agreeing to appear today to provide evidence in relation to the committee's inquiry into regional airfares. My name is Jessica Shaw and I am Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee to my left, Terry Redman, member for Warren–Blackwood; Yaz Mubarakai, member for Jandakot; and Stephen Price, member for Forrestfield. Our deputy chair Sean L'Estrange is not available today. It is important that you understand that any deliberate misleading of this committee may be regarded as a contempt of Parliament. Your evidence is protected by parliamentary privilege; however, this privilege does not apply to anything you might say outside of today's proceedings. I advise that the proceedings of the committee's hearings will be broadcast live within Parliament House and via the internet. This broadcast may include documentation provided by you to assist the committee in its investigations.

Before we begin with our questions, do you have any questions about your attendance here today?

Mr QUINLIVAN: No, not really.

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

Mr QUINLIVAN: Not really. I just came along because I was invited here. I provided some information because all that you hear is people comparing airfares with Bali and you get sick of it after a while, so that is why I did not put a submission in, so I just put some factual costs for running our business just to give you an idea of what is going on.

The CHAIR: Would you like to give us an overview of Skippers, its operations in Western Australia, the routes you operate on, your passenger numbers, to give us a bit of a flavour of your operations.

Mr QUINLIVAN: Skippers has been going for 25 years. Our RPT—we do Broome, Fitzroy Crossing and Halls Creek. It was originally a subsidised route by the government. It was quite substantially subsidised before we took over—well over \$1 million. We did it for somewhere around \$500 000. It was ceased in June last year. We now do it in conjunction with the health department and it seems to be working pretty well. It is not cost neutral but it is nowhere near what it was. We do the Monkey Mia–Shark Bay route, which we took over in 2010 after a bit of controversy. Skywest had had it for 40 years. We have been doing the eastern goldfields, which encompasses Mt Magnet, Meekatharra, Wiluna. We did go to Leinster. We go to Leonora and Laverton as well. Recently, we have started down in Ravensthorpe, which is a sort of underwritten service two days a week by the mining company. We have been doing it for 15 or 20 years just on the skinny routes. Our majority, I suppose two-thirds of our business, is probably mining FIFO work. We have about 28 aircraft, about 300 employees and our own terminal.

The CHAIR: What size aircraft do you operate?

Mr QUINLIVAN: They go from nine to 108. Nine operate out of Broome but mainly on our routes are 30, 36. You need 36 to get into Monkey Mia, and 50s. That is what we mainly operate on the RPT services.

The CHAIR: How many passenger movements a year do you typically deal with?

Mr QUINLIVAN: I have it in there, the various ones. I think it is just over 20 to Carnarvon. It has dropped off quite a bit. When we first took over, it was around the 20. We got it up to about 25 or 26. There was a lot of money being spent up there with royalties for regions and the floods and everything like that. We have had a bit of controversy up there with the local member. Every time that sort of controversy comes up, the passenger numbers seem to go down and you get it up again. Last year it was not that great; it was probably back to 2008–09 numbers. It seems to be picking up a bit this year. Around the goldfields, there are probably, I think, 7 000 or 8 000 on one route and probably the same on the other, so it is not a big number.

The CHAIR: Thank you very much for providing the information that you have to us. It is remarkable that you have been so forthcoming with that information because we have really struggled with transparency around fare construction and the input costs. Given that you obviously have quite a degree of experience and knowledge in this area, are you able to give us a bit of an overview of how other operators might be constructing their fares?

Mr QUINLIVAN: I think it is a bit difficult. I cannot talk for how Qantas or Virgin do it. I was chairman and a major shareholder of Hazelton before we sold out to Ansett. That was always a struggle over there. We always lost money. It is very competitive. If you are into leisure markets, everyone compares everything to Bali and Singapore, so it is very difficult. In our routes in the goldfields or the northern goldfields, it is really dependent on the mining companies and what we find is when something is under construction, they just pay whatever the price is. All our fares are—I think I itemised them all there—so much a kilometre, which, when you look down and look at Esperance–Albany are probably around about the right price. You have to get a certain yield to pay for the aircraft because there are so many add-ons with turnaround agents and everything else. What we do is charge out our aircraft at what we would charge someone if they were on a FIFO contract. For us, if we can get FIFO money for it or contract money, we are quite happy; it is utilisation of the aircraft, unlike probably Rex and that. They have to weigh things up, and I think they make about \$4 a passenger, so it is pretty skinny. As we know, Virgin never made any money. It is not all beer and skittles in the aviation industry.

The CHAIR: In the information you have provided to us, you note that Skippers is willing to invest in the GDS booking system, but it would add about \$25 a ticket to do so. With about 38 000 to 40 000 passengers a year, that would be roughly \$1 million a year. Is it really that expensive to participate in?

Mr QUINLIVAN: I only looked at Monkey Mia and Carnarvon. I think this GDS is a furphy. I put in some figures of what we do, where all our stuff comes from, but when you talk to all the tourist blokes and everyone like that, they want GDS so that you can sell everything to wholesalers and goodness knows what. I do not think that would be applicable in Wiluna or Meekatharra—those sorts of place; they are just mining. Maybe Carnarvon, but then again, there are no white beaches at Carnarvon. The saying is you go there to stop overnight to go somewhere better. Monkey Mia—I think the competition now; you can go to Rockingham and Bunbury and down the river, you can see as many dolphins as you like. We give the RAC a \$129 fare when they do their promotions. They do not do them very often. Then you go to stay there, it is, what, 350 bucks to stay there, so they do not help themselves when you compare it with Bali.

The CHAIR: Have you looked to partner with any other tourism associations, local government entities or accommodation providers around packaging up destinations?

[3.30 pm]

Mr QUINLIVAN: We do it with the RAC and we do it with Discover West. We tried with Qantas to host us on their Amadeus or whatever they have these days and we tried with Virgin. When Virgin

was pulling out of WA, we tried there, but they do not really want to know you. The only ones are Airnorth; they are on the Qantas thing, but they are really too busy looking after their own camp, I think. With this GDS, I just say to people, “When did you last look up the phone book?” If you want to know how to go from here to there, you just google it and it tells you who goes there and everything else. Most people book online; it is just straight booking online. I think the packages into Western Australia are eight per cent compared with Queensland at 69 per cent. It tells you a lot—that not a lot of overseas people come in on packages.

The CHAIR: Do you think that is a potential area for growth? It is sort of a chicken and an egg thing, is it not?

Mr QUINLIVAN: Chicken and egg. If you go to Queensland, you have all the Disney-associated fun parks. What have you got here, when you think of it that way? If you want some sun, you go to Broome and pay a fortune, or if you go down south, you drive mostly. That is what I believe.

Mr D.T. REDMAN: Stan, besides your direct charter contracts with the resources sector—so, on the RPT routes, which are regulated routes—do you have any contracts that are with any particular group; that is, the resource companies, businesses and/or government for a number of seats or something on those routes?

Mr QUINLIVAN: On the RPT?

Mr D.T. REDMAN: Yes.

Mr QUINLIVAN: Out of Leonora, because of the charter policy, they have to put 20 people on the Leonora flights to support the RPT.

Mr D.T. REDMAN: The companies, yes.

Mr QUINLIVAN: That is a company. We do a deal with most of the others and try to attract them to stay on the RPT, but once they get into production, they usually work out what sort of rosters they are on. But they do support the RPT, because they do not seem to go there on Mondays and Fridays. Everyone seems to change shifts on Wednesday and Thursday or Tuesday and Wednesday. It seems to be traditional.

Mr D.T. REDMAN: On the RPT routes, do you have to match your scheduling to their rosters?

Mr QUINLIVAN: No. It seems to work for them in the mornings at 7.35. Then you do not get the peak period. Some of them go earlier. That sort of suits the mining company. I know there has been some criticism in a couple of the things. They are not user-friendly for the tourists to go to, say, Carnarvon. How do you win if you put it in at eight o'clock or nine o'clock or something like that? The person who wants to go up and do a day's work criticises you, so you cannot win.

Mr D.T. REDMAN: So you own and run an airline. One of the bits of feedback from some submissions we have had about some of the big planes with Qantas and Virgin into some of the big resource-based communities is the fact that they go full one way and largely empty going the other way. How critical is that to the pricing? Perhaps there is some way of getting better utilisation of those aircraft in having the discussion with the resources sector. What are your views about that?

Mr QUINLIVAN: I see that in Exmouth, which is typical because of the oil and gas. There are some reasonable fares available up there and back probably most of the time and you have something to go and have a look at—Ningaloo and stuff like that. But there is nothing in Carnarvon as far as resource goes. I think that is a good example. But then Broome has a lot of helicopter stuff, so why their airfares are so expensive, I am not too sure.

Mr D.T. REDMAN: In terms of the regulated routes that from time to time you have to make a bid for, do you have any recommendations or any views about whether the current packaged

arrangements are appropriate or they should be bigger and therefore getting a level of scale or reduced if you think that they are not matched up properly? Right now, you have the Rex route down south and the inland route and then there is the milk run. Do you have a view about how they should be packaged?

Mr QUINLIVAN: I think they should all be packaged as one, because Rex has got all over Australia; they have 1.2 million passengers. We have our 50 000 or whatever it is, so your scale is not there. So it helps with your costs.

Mr D.T. REDMAN: Can you just expand on that? Tell me about the cost bit associated with scale. There is fixed cost you are spreading further; is it as simple as that?

Mr QUINLIVAN: Yes, you can fix costs and you get utilisation out of your planes. They have two aircraft. They have four aircraft here and they use two on those two routes. They have 18 a week, so that is 36 hours out of one and that is 1 800. That is pretty good utilisation for one aircraft. Ours would be lucky to do 700 or 800 hours a year, so you are not getting the utilisation but you have still got the same time maintenance. So, more utilisation makes it easier.

Mr D.T. REDMAN: So there would be an advantage, in terms of attracting bidders, if you package more routes up as part of a package?

Mr QUINLIVAN: It could do, but it depends. Basically, there is only Rex on the east coast. We are the only ones here, unless you go into Jet. Jet go somewhere with one aircraft or two aircraft, but there is not much around. There is Sharp with his 19-seater Metros. It is getting less and less all the time. We have got 300 people. We have got about 300 people and we have got 27 aircraft, so work that out. You need a lot of aircraft. It is 11 people per aircraft, so you have huge costs when you are RPT. One of the things they could do is make it more transparent around the costs associated with your head tax. Down in Esperance, they pay 20 bucks, but they do not pay any landing fee, and I think it is \$35 at Albany with no landing fees. We go to, say, Carnarvon and we have to pay the best part of \$20 000 a year to hire the terminal, but Esperance pays \$1. We pay nearly \$500, I think, for a 50-seater and that averages out at probably \$12 or \$14 just for the landing fee alone, plus \$20-odd. It is like chalk and cheese really. If it was transparent, we could put bigger planes on because we know it is not going to cost us too much and probably put more people on and drop your fares. But when you have this burden of a bigger plane just for two or three people, you do not do it.

Mr D.T. REDMAN: We have come off the back of the last assessment which effectively took Geraldton out of that regulated route up the west coast. The heat has come out of the resources sector somewhat, so it is a slightly changed landscape from what it would have been not that long ago—three or four years ago. Do you think there are any routes in Western Australia at the level that you are operating at that should be re-regulated?

Mr QUINLIVAN: Not really. We used to go from Carnarvon to Geraldton. We did have a go at Geraldton standalone for \$96, I think, return, but you get your Qantas and these and they just blow you out of the water, and Skywest at the time. Some of these tourist guys say, “Why don’t you go to Monkey Mia? You can have a look at the dolphins and then shoot across to Exmouth and have a look at the whale sharks and go somewhere else to do something at Broome.” But they forget the costs of just landing, the cost of the ground handling and everything like that, and how many people are you going to get? Skywest did it years and years ago and it never worked. We know where Ansett and Skywest are now. They are not here. I cannot see any routes that are not being covered really.

Mr D.T. REDMAN: The Exmouth route?

Mr QUINLIVAN: We saw that. We saw VARA in there, as well as Qantas. The one that gets the major share of the resource business, and out goes VARA.

Mr D.T. REDMAN: The question I ask is: you could therefore argue that there is a lack of competition and maybe it should be re-regulated; is that a view you have?

Mr QUINLIVAN: There is lack of competition?

Mr D.T. REDMAN: Yes, for the reason that you just described.

Mr QUINLIVAN: So you are saying that —

Mr D.T. REDMAN: Perhaps it should be re-regulated so there is some outward control over what happens there if you have only one airline operating.

Mr QUINLIVAN: Re-regulated for two airlines or one or just try to match their prices?

Mr D.T. REDMAN: Maybe just for one.

Mr QUINLIVAN: If they do not make any money out of it, they will pull out, will they not? That is a hard one.

The CHAIR: Do you have any observations on the tender process itself when these routes are put out to tender? We noticed when the Albany and Esperance routes were put out, Rex was the only aviation industry participant to participate in that tender process.

[3.40 pm]

Mr QUINLIVAN: That is not quite right. We participated in Albany and Esperance—the whole lot. We did not get any of them. I have it in writing the reasons why. Part of the criteria is you get so many points for this, that and the other. I did not tell them what the captain did, what the first officer did, what the cabin crew did and how many toilets are on the plane. My view was I thought the committee assessing these things would have an idea of what an aircraft looked like and what sort of aircraft. We did not get any of them. Then they came and said —

Mr D.T. REDMAN: Your bid was deemed to be nonconforming, was it?

Mr QUINLIVAN: No, it was not nonconforming; the other mob got Albany and Esperance. Then they came out and said, “This is the bad news.” I said, “Fair enough.” They said, “Will you do Carnarvon for three months?” I said, “No, go and get the smarties from the east to do it.” They said, “No, they can’t do it.” I said, “Well, I’m not going to do it.” I finished up negotiating with them and doing it for 12 months—eighteen months, and it is still extended; it is out again now. But we put in for Albany and Esperance. I think the main thing at that stage is that everyone was talking about this buzzword GDS and going from terminal 2, things like that. I think one of the pollies at the time was criticising us and taking out petitions and things like that. It did not help their cause, but anyway, that is life.

The CHAIR: Do you have any observations, then, about the tender process itself, either the way the tender documents are formulated or the way the department runs the tender process?

Mr QUINLIVAN: I think it is run correctly, but I do not know who is on the committee that assesses it. I would expect them to be someone with some aviation knowledge and knowledge of aircraft and costs of aircraft and stuff like that. I do not think that could have been in place. That is my view of it.

The CHAIR: This inquiry is providing a range of different people—stakeholders—with the opportunity to make suggestions about what the state government might usefully do to try to reduce regional airfares and the impact that is having on regional communities. Do you have any recommendations that you would like to suggest the state government could implement to improve the situation?

Mr QUINLIVAN: I think if they could make the shires just have a one-off head tax that incorporates the landing fees, that would help. There was a suggestion that royalties for regions should pay the

head tax. One of the pollies at the time said they should pay the head taxes for the regional people. Not really—I think it is just people. If you have not got people, it is very difficult.

The CHAIR: Any suggestions as to how we might grow the pie, get more people—anything?

Mr QUINLIVAN: I think some of the accommodation providers have to get a bit realistic when they are competing against Phuket and Bali and stuff like that. Carnarvon, for argument's sake, in the good season, they do not drop their prices. They will not do packages because they are full during the season. In the off-season, when no-one wants to go there, or the wet season, they will drop them. But it does not work that way. I think we are just too scant on people. I have had people inquire about Broome and stuff like that and say, "What about giving us a price to charter up there and back?" I said, "That is fine, but unless you fill the aircraft up, it does not work." We take the risk on it. If you get it full up and back, sure, you will reduce your prices. Carnarvon wanted one flight a week. Sure, you will get the right prices. But everyone wants two flights a day. Half of them are a bit over-serviced. But, no, I cannot put my finger on what you can do.

Mr D.T. REDMAN: Stan, there was some suggestion from an earlier hearing this morning that in fact the city of Geraldton talked about using Geraldton as a hub or a base to operate from for the coastal run. Obviously they have got an interest in being better connected to that rather than having people going back to Perth. Is that something that is realistic or is it simply that the numbers out of Perth versus the numbers out of Geraldton is really problematic?

Mr QUINLIVAN: I think with all these hubs, the mining industry tried to do it, and everyone has tried to do it. But to station an aircraft in Geraldton and fly from Perth to Geraldton and then go from there to Karratha or somewhere like that is not realistic. Everyone wants to get from A to B as soon as they can. The direct routes are what everyone wants. We get bellyaching now because we stop at Monkey Mia on the way up. If we did not stop there for the people who go there, they would not have an air service. It is like everywhere—everyone wants to go direct today. I cannot think really what we can do.

The CHAIR: Does Skippers offer community fares?

Mr QUINLIVAN: We are the only ones that offer a 25 per cent discount for locals. Rex have started this community fare business. You have to book 60 days out and then in the last 24 hours you can get the fares, if there is anything left. Ours are available all the time with 25 per cent to the locals. Carnarvon uses them. The mining companies do not seem to use them too much. Wiluna tried to do a deal where they had a \$200 fare and they would give us \$50 back, so that would make it \$250, but no-one ever uses it.

The CHAIR: You have then, presumably, 25 per cent off a range of fare classes that you have?

Mr QUINLIVAN: No; it is a B-class. It is 25 per cent off the Y-class fare—the base fare—plus the charges, which is the head tax and the Perth head tax.

The CHAIR: Your fares then change the closer you approach the departure date?

Mr QUINLIVAN: No. We just have what they call Skip-e-deals. Once they are gone, they are gone, and then they go up to N and K. If you want to book tomorrow, you pay full price. But we do run different sorts of fare sales, trying to get back legs, as you were saying, Terry—different ways and things. We have always got sales out there.

The CHAIR: Mr Quinlivan, you do have an opportunity if there is anything you feel that the committee should be looking at or any suggestions that you would like to make to us on these particular terms of reference.

Mr QUINLIVAN: Not really. I think probably everyone has had their say. I think everyone has just about tried everything. I know Broome has underwritten different fares or different flights to overseas and the east coast and different things that have not turned out that well. I think people are trying. WA does not have the numbers going to some of these destinations. I think that is half the problem.

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

Hearing concluded at 3.48 pm
