

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
MONDAY, 11 SEPTEMBER 2017**

SESSION FIVE

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 1.54 pm

Ms JANE McKEON

Group Executive, Government Relations, Virgin Australia, examined:

Mr RICHARD JAMES GEORGE

Head of Corporate Sales, Virgin Australia, examined:

Mr ANTHONY PAUL STOKES

General Manager, Finance, Virgin Australia, 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: deputy chair Sean L'Estrange, member for Churchlands; Yaz Mubarakai, member for Jandakot; Stephen Price, member for Forrestfield; and Terry Redman, member for Warren—Blackwood. 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 that you might say outside of today's proceedings. I advise that the proceedings of the committee's hearing will be broadcast live within Parliament House and via the internet. This broadcast may include documentation provided by you to assist the committee with its investigations.

I would like to thank you for your submission to the inquiry. Before we begin with our questions, do you have any questions about your attendance here today?

The WITNESSES: No.

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

Ms McKEON: Yes thank you, chair, and for the invitation to appear before the committee today. I do have an opening statement of a page or so, which provides some commentary additional to the material outlined in our written submission, so if we could, we would like to run through that, and then obviously my colleagues and I would be pleased to answer any questions you may have.

The CHAIR: Certainly.

Ms McKEON: Thank you. Virgin Australia entered the WA market in 2001 and commenced our first intrastate services in 2004 between Perth and Broome. Our network expansion and investment in the state has continued, including with the acquisition of Skywest Airlines in 2011. Today Virgin Australia operates over 130 weekly interstate services, 90 weekly intrastate services and a charter business, and employs over 1 400 permanent and contracted staff in WA. A recent Deloitte Access Economics report estimated that the annual economic contribution of tourism expenditure facilitated in the state by Virgin is \$0.7 billion. As is reflected in a broader national context, our presence as a competitor in WA has led to increased capacity, enhanced choice in schedules and product, and downward pressure on fares, which in turn have positive flow-on effects for consumers, tourists and businesses.

The challenges inherent in the economics of regional aviation are substantial, and these have been outlined in our submission. The characteristics of the operating environment in WA make regional flying a particularly difficult proposition. The state has a relatively small population base with a

strong concentration of this in Perth. Its regional centres have small populations and tourism infrastructure is generally not highly developed. Contrast this with Queensland, where 45 per cent of the state's population lives outside the capital, compared with 25 per cent in WA. In Queensland there are 10 regional centres of more than 50 000 people, which are served by RPT operations; there are none in WA. Low leisure traffic volumes provide limited opportunities to stimulate demand through price discounting, in combination with strong directionality caused by a significant fly in, fly out segment, seasonality and distance from the major Australian population centres, in a society where shorter leisure breaks are increasingly the norm. This creates a set of circumstances that are challenging.

In response to these challenges, Virgin has worked hard to contain those costs that are within our control. On the demand side, we have undertaken a range of initiatives designed to encourage travel in the various market segments. It is important to note that Virgin Australia's traffic mix on WA intrastate routes is not nearly as dominated by the corporate segment as that of our major competitor. In light of this, and with an average load factor across our WA regional network of less than 60 per cent, we have greater scope to offer competitive fares to all travellers, and a clear impetus to do so.

In 2014 we introduced a range of fares aimed at residents of regional communities. These were withdrawn from sale after 12 months due to poor uptake, despite heavy promotion with local chambers of commerce and travel agents. In 2016 we introduced advance purchase fares on a number of intra-WA routes. In some cases these were discontinued due to poor uptake. Where they were successful in stimulating demand—for example, on the Broome and Kalgoorlie routes—they have been retained. Virgin Australia has continued to focus strongly on offering attractive sale fares on all routes, and our sale fares today are lower on seven of our eight intrastate routes than they were three years ago. On some of these routes we have had sale fares available up to 90 per cent of the time over the past two years. We also offer very competitive year-round fares and work with tourism bodies on promoting packages that market WA nationally and internationally, including in conjunction with our airline alliance partners.

[2.00 pm]

Despite our best efforts, these initiatives have not delivered acceptable commercial returns for Virgin Australia in WA. We will continue to work closely with state and regional tourism agencies, businesses, industry organisations, airports and communities to identify opportunities to stimulate travel. In such a challenging operating environment, collaboration is critical to understanding the key drivers and needs of all players, and in developing solutions that are sustainable for all stakeholders.

Our submission puts forward a range of policy and regulatory options available to influence the level of airfares in WA. These options obviously entail various costs and implications, and are ultimately matters for government. From Virgin Australia's perspective, our preference would be to see the continuation of a largely competitive market—a market to which we have made a significant investment and commitment, underpinned by enhanced collaboration between stakeholders. We believe more effective collaboration could be supported by a more informed, coordinated and transparent analysis of the issues in play, as suggested in the submission by the Department of Transport, and we would be very happy to contribute to this. We look forward to continuing to work with all stakeholders to deliver the best outcomes we possibly can. Thank you, chair.

The CHAIR: Thank you, Ms McKeon. This committee has travelled across regional Western Australia. We have held public forums and we have had a very high turnout, and there is a very high level of interest in this inquiry. We have heard some absolutely heartbreaking stories of people who

genuinely, through no fault of their own, need to travel at incredibly short notice. Their demand is very inelastic. Whilst I understand what you say about the poor uptake of residential fares and the availability of sale fares, very often these are not the people that are complaining about the way the airlines are behaving. Could you give me an understanding of how seriously Virgin Australia takes its corporate social responsibility obligations, when we are hearing repeatedly from regional Western Australians about unacceptably high airfares that they are being forced to pay to get down to Perth and to other areas in emergency situations, and whether there is any scope whatsoever for some sort of compassionate fare into this sector?

Ms McKEON: I can confirm that Virgin Australia takes our corporate social responsibilities very seriously. It is for this reason that we have been so focused in past years, and continue to be, on efforts to offer a range of fare products in all markets, in particular isolated intra-WA markets, that meet the needs of our customers. There are some fare products that have not been successful; however, this is a dynamic industry and it is very much in our interests to listen to the needs of our customers. We continue every day to look at refining the fare products that we offer and see what we can do to encourage uptake for both people who are planning to travel sometime from now as well as people who need to travel at the last minute.

The CHAIR: What specifically are you doing to look at these situations where you have just been told your mother has got two days left to live, or a family member has fallen very ill, or you have to attend a funeral? You have no ability to take advantage of sale fares or residential fares in those circumstances, and people are being exposed to exorbitantly priced fares at incredibly short notice. Is there no scope for some sort of compassion in the circumstances, given that a lot of the time the planes are travelling at very low capacity factors?

Ms McKEON: There is scope, and certainly we do get approached with such situations, and we respond to them generally on a case-by-case basis. So, certainly the sorts of situations that you are outlining, they do occur at the moment, and we respond positively. In terms of initiatives—standing residential community fares for those sorts of situations—as I indicated, we did offer them previously and, interestingly, there was not a significant uptake of them. Of course, that does not mean they cannot work in the future. It is a dynamic industry and, as I said, we keep looking at what our customers want in the market. We certainly would not rule out any future initiatives, and we like to think that we are an innovative business, very much focusing on responding to the needs of our customers.

The CHAIR: So, on a case-by case basis, you have said you do respond. What do you do, because we have had absolutely no evidence of that presented to us over the course of this inquiry?

Ms McKEON: Well, for example—and please, if there are specific examples that my colleagues have, feel free to put them forward—but yes, if someone emailed us or phoned one of our guest contact centres with a particular situation, our people are empowered to respond to that.

The CHAIR: Would you be able to provide this committee with some information as to how frequently that happens because, as I say, we have had no information presented to us that would suggest that is something that Virgin typically does? I guess that sort of reflects an ongoing theme that is part of this inquiry, that the level of information and the level of disclosure about the fare availability, passenger numbers, who is accessing and, indeed, who is requesting these kinds of things is very limited. I listened with interest to your comments that you would like to participate and have as informed and transparent a conversation as possible. We do hope that today you really will be quite open with us about passenger numbers, particularly getting to the root causes of why the costs are so very high, when people have to travel at very, very short notice. Can you give us any

explanation as to why it is that, as you approach the departure date, your costs are so high to travel from regional Western Australia?

Ms McKEON: I think what that reflects is not in particular an intra-WA issue. It is an issue of risk and supply and demand in a particular market. You have fixed costs on a particular aviation route, and then as you approach the date of travel, the risk profile in terms of raising the revenue to cover those costs increases, so I do not think it is a phenomenon that occurs in isolation in WA. This is something that occurs in the aviation business across the network.

Mr S.K. L'ESTRANGE: This question I am about to ask may be a question for the general manager of finance—Mr Stokes, maybe for you, or it could also be sales related. It links to how we as a committee can better understand how the costs impact on your business and then how that relates to ticket prices, particularly in our regional and remote centres—places like Kununurra, Broome or Karratha. Can you explain how you calculate the cost of an airfare to a specific town in Western Australia, particularly those purchased close to the date of travel?

Mr STOKES: In terms of the way the ticket fares are structured, they are structured in what is called a booking class, so there is a different price on a booking class, from the top, which is called a Y-class fare, through to our sale fares, which are S-class. It is not alphabetical, but that is the process, so there are about 12 steps in the price structure on the way through, and that is how availability is controlled in terms of different classes, so a Y-class would have full availability for the aircraft, and the sale fares would have a limited availability, similar to how a hotel would be structured. Depending on what availability there is, which is driven through historical booking curves, we have got a revenue management tool that works on forecasting demand and forecasting the way through. That takes into account all those factors, and the factors of the aircraft, and then places available seats in different price points along the way.

Mr S.K. L'ESTRANGE: That is telling me a bit about the pricing. I am actually asking the question on costs. If you are unable to answer it today, I would like you to try to give me some understanding of the costs that go into your pricing—so what are the costs—and then if you could also possibly take on notice the capacity to submit to us a breakdown of your costs that actually demonstrate the relationship between why the airfares go up considerably as you get closer to the date of travel.

[2.10 pm]

Mr STOKES: In terms of the costs, I think our submission went into a high level in terms of what is there, so you have got fuel, capital cost of the aircraft, labour associated with the operation of the aircraft. Stepping down through that—I will just refer to my notes—you have got the cost of the maintenance facility, the airport fees at both ends of the flight, and then you step down to your overhead and support base costs—sort of the general categories we talk about on the way through.

Mr S.K. L'ESTRANGE: Is there a difference between the costs of an airfare three weeks out from a flight as to 24 hours out from a flight?

Mr GEORGE: I think I can probably take that one. In regional WA, it is the directionality of traffic, so generally speaking there is a profile that works up from the base load all the way as you get closer to the departure date as more and more bookings come in. Generally the pricing, as you get to the last few seats on an aeroplane, they are at that higher cost, as you are trying to get to the end. That would explain, at a peak time in WA, when there is the directionality of traffic, and normally that is coming from regional WA into Perth in the afternoons. It is the same time as where the peak demand is. So that is where we encourage, with our advance purchase fares and our sale fares, people to get in early, and they can still get those cheaper fares and they are readily available, but as you get closer to the window, and that departure point, where there is that directionality of

traffic, that is where the airfare costs are higher, but generally speaking you can still see cheaper airfares.

Mr D.T. REDMAN: What you just said would suggest that if a plane is half-full on one of the legs, that there should be cheap airfares. Is that the case?

Mr GEORGE: Yes. You can still get significantly cheaper airfares on non-peak sectors. It is not just blocked out a couple of days before because if we have a half-empty aeroplane, we are trying to fill it.

Mr S.J. PRICE: Mr George, you just said as you get closer to the time of departure, that is when the costs get higher, but it is not actually the costs associated with the seat on the plane, it is just that the price gets higher.

Mr GEORGE: Yes. So when we do the advance purchase fares and the sale fares, they are at a significantly lower rate than what they are at the end. Because you do not know what your load factors are going to be, it is not easy to say that is exactly what the ticket price is going to be on that flight.

Mr S.K. L'ESTRANGE: Is the motivation to offer discounts in advance so that you, as a business, can lock in what you know is going to be on that aircraft as far out as possible?

Mr GEORGE: Yes.

Mr S.K. L'ESTRANGE: Therefore, to draw a conclusion from that, are you saying that you put higher airfares on within 24 hours or on the day to discourage people from waiting until the last minute?

Mr STOKES: That does come into effect. It will depend on what rules and how that individual flight is being managed. But in terms of putting it together, there is not a perfect correlation between the individual cost of the seat and the price paid for that seat. It is more than likely that the sale fares and the AP fares would be running at a very small margin, if not a loss—what price we are selling at versus the cost of operation. The cost of operation of the aircraft is fairly fixed in terms of the operation and then the pricing paid as that goes through the selling window changes over time to try and get the maximum revenue that we can achieve to cover the costs of that operation.

Mr S.K. L'ESTRANGE: From a personal perspective, I kind of understand that the business model is to get airfares locked in as far out as possible to secure the revenue stream for that particular flight; I get that. That way, you do not have everybody rushing at the last minute and possibly not getting enough on the plane to cover the costs, so I understand that from a business perspective. It is now the difficulty with customers who are demand-inelastic, because they are having to come on at the last minute because of a family member having a sudden cancer diagnosis, a funeral that has to happen, or whatever. In those situations, we get the two conflicting, so you get the emotional pushback from the community based on these fares closer to the date being considerably higher than what they were if they could book in advance. Have you tried to address that issue yourself as an organisation?

Ms McKEON: Yes, I think that goes to the resident fares that we offered a few years ago. What we found, and we have an individual breakdown by route—which we would be happy to share with the committee in confidence—which illustrates how many of those fares were actually purchased by residents, and the uptake was very, very low indeed.

Mr S.K. L'ESTRANGE: Are you able to provide us the data —

Ms McKEON: Yes.

Mr S.K. L'ESTRANGE: — just when you ran that program to show us, and also at the time, because it might be a different context, flight costs might be different today than when you ran that

program? Could you give us what it cost and then what you were offering and what your margin was, so that we get an understanding of what type of benefit the community was being offered? Then we can reflect on the take-up of that offer.

Ms McKEON: Yes. We would be happy to give you the detail of the offer, which ran for 12 months, at whatever level of granularity that we have.

Mr D.T. REDMAN: Do you think there has been any context shift in that time because part of the evidence we have received suggests that a couple of years ago—even two to three years ago—pricing was not an issue, for whatever reason, but now it is? Do you think there is any context that has shifted in that time that perhaps the arrangements that you talked about a couple of years ago might actually be a bit more palatable now, or might be something that gets a better take-up?

Ms McKEON: It is possible. I suppose that Virgin has very much, since that time, concentrated on other initiatives, so the advance purchase, and looking to have as many sale fares as we can in the market. What we found from our customers in regional communities is that those fares seem to be meeting their needs, so we have actually had an uptake in them and, as a result, have been able to lower the sale fares over that time frame. But, certainly, there could be factors out there that we are not aware of and, as I said, we like to look at these things in a dynamic fashion and we are certainly open to going back and revisiting them.

Mr S.K. L'ESTRANGE: Just what was the year that you ran that 12-month trial?

Ms McKEON: It was from January 2014 to 2015.

The CHAIR: Roughly what were the terms and conditions of those? Were they available a day ahead or bookable two weeks ahead? Broadly, how would you access those fares?

Ms McKEON: It was up to a 30 per cent discount on the full fare up to six times a year and they were available, I think through Virgin directly and also through local travel agents for residents of regional communities. There were discounts at levels below that as well, so, for example, if you were a resident and you wanted to spend the weekend away, say, in Perth, there was a condition that you would be away for a Saturday night and you could use that fare in conjunction with other fares. We will certainly be very happy to provide you with the details of what those initiatives were.

The CHAIR: So very similar to the announcement that Qantas has just made. Could you remind me again what Virgin said about the Qantas announcement that has been made just recently?

Ms McKEON: Well, the only comment that we have made is the comments that we have made here today, which is to say that we had in market an initiative not unlike the Qantas announcement for that 12-month period that I just talked about and the uptake of it was very low. So Virgin's focus has been on developing a range of other fare products to offer our customers.

The CHAIR: Over the intervening period, this issue, though, has become more and more prominent. There has been more and more emotion in the community and Qantas has chosen to respond. Qantas has obviously been receiving a lot of feedback and has probably been keeping a bit of an eye on what this committee is doing and has responded and issued cheaper access for regional communities. Virgin has chosen not to do that. I wonder why.

Ms McKEON: We have not chosen not to respond or to not offer competitive fares to communities. Virgin offers very competitive fares on all of our eight intrastate WA routes. I think you will find that some—for example, our advance purchase fares that we talked about on Kalgoorlie and Broome—are cheaper than the Qantas fare offerings even after all of the discounts have been taken into account. So, as I indicated in my opening statement, Virgin has a very clear impetus to offer low fares—as competitive fares as we can—to these regional communities. We are not so dominated in

terms of our corporate traffic; we have lower load factors. We are not profitable on the majority of our routes; therefore, it is very much in our interests to offer our customers low fares and that is what we are very focused on doing.

[2.20 pm]

The CHAIR: It is just that there is evidence in front of this committee, and I would encourage you to take a look at the evidence that has been tabled by Curtin University; they have done a study to indicate that there is very little difference, actually, between Virgin Australia's pricing and Qantas's pricing on regional air routes. The prices are remarkably similar, more volatile and that there really does seem to be on these notionally competitive routes a very different type of pricing behaviour than there is on the regulated routes. The position you have put to us is not necessarily consistent with other evidence that this committee has received about the benefits of competitive markets and indeed, to which, on these unregulated routes in particular, market forces are actually operating to put downward pressure on prices. What do you say to that?

Ms McKEON: I point to the fact that our sale fares on seven of the eight intrastate routes that we operate are lower today than they were three years ago. That suggests to me that we are competitive and that there is downward pressure on fares as a result of competition.

Mr S.K. L'ESTRANGE: I am keen to follow up on that comment plus trying to get an understanding of correlating the community feedback we have received with some data from yourself. The data I am interested in is the number of tickets purchased for travel to or from those eight centres you service that were purchased within three days of travel for the financial year 2016–17. As I said, we get a lot of community submissions but we want to know how much it is. How many tickets are actually being purchased within three days of your airline by regional centre or remote centre that you service? Could you take that on notice?

Ms McKEON: Yes, absolutely. I would also add, if I may, in terms of how we are responding, I have indicated that we think that the DOT submission, which talks about bringing stakeholders together and having a more transparent conversation about the fares that are in the marketplace and the reasons for them—we would be very happy to contribute to that. We have already had some good engagement with the DOT. Obviously, we have relationships with the various stakeholders in the communities that we operate to and we are really looking to continue that and to step it up.

The CHAIR: That is good to hear. I will turn over to Terry.

Mr D.T. REDMAN: Picking up on that last point, we asked about one of the earlier submissions from one of the other major companies—you would know who—whether they would be happy to be forthcoming, albeit in camera, in confidence, about the cost structures of their flights. We have what appears to us to be sort of a disconnect between a view on the ground out there in those regional communities that there is some gouging going on by the airlines. Short of seeing the detail and the transparent mechanics of that, we have no other way of really ascertaining that. If Virgin was of a view to give us information that is very open and transparent, in confidence—for 30 years, I am told, it sits there—that would really assist the committee with the confidence around the statements you are making on a more global level now.

Ms McKEON: We would be very happy to do that.

Mr D.T. REDMAN: Fantastic. I will let others deal with the mechanics of that. If you look at the air routes around the state, one of the deliberations of the committee is this notion of regulated versus unregulated. One of the routes that was deregulated is the Exmouth route. Now, what has happened is that Virgin has pulled out of that for a range of reasons. Have you got a view about how or what you are recommending to the committee about how we should manage or make a

recommendation in and around that route, given that there is only one airline operating and for all intents and purposes it is probably unregulated and whether we should take a more heavy-handed approach from a regulatory perspective?

Ms McKEON: Probably addressing the question at a higher level, Virgin has been on the record saying that markets can only sustain a single operator because of the particular level of traffic and that it makes sense, from our perspective, to either regulate and/or subsidise the route, because it may be that, absent that, the community would not have an air service. We are on the record as saying that and we have operated some of those routes in the past. But where the characteristics of the route are such that it can support more than one operator, then we do think that a competitive market delivers the best outcomes not just for travellers, but taxpayers as well. Mr George will talk to the specifics of the Exmouth route.

Mr GEORGE: So Exmouth, it was the former Skywest—or it was around that time of the acquisition—that was the established player. But once it was opened up and the competition was introduced, with the mix of corporate and leisure markets that were there, it became unsustainable to continue to operate; there simply was not the traffic nor the revenue to justify two operators. Even trying to stimulate it with sale fares and leisure-based tourism, the infrastructure at the other end just was not there to sustain another 50 000 or 80 000 passengers a year.

Mr D.T. REDMAN: The inference from your commentary is the suggestion that we should push to have that re-regulated.

Ms McKEON: I think it is a question of looking at the population at both ends and the tourism infrastructure at both ends. You also need to have a look at the corporate dynamics in the market, as Mr George has indicated. At the time when Virgin was operating on that route after the Skywest acquisition, we were still a very small player in the corporate segment; we are still a much smaller player than Qantas, but increasing our share. Because we had a very small share at the time, all the corporate traffic went to QantasLink and we could not sustain the service. I recall the break-even load factor for that service, which we would be happy to provide in confidence, was so low that even with absolute rock-bottom price discounting, we could not make the service work. I guess I am saying that there is a range of factors that have to be looked at, and those factors change over time.

Mr D.T. REDMAN: There is another factor in this regulated space. You, as an organisation, used to have the regulated routes of what is now Rex of the Skywest routes. You chose, certainly when the Albany–Esperance went to market—I think even the other ones—you did not put in any bids for that and you seem to have backed right away from that, and you may give me a quick basis for some of the reasoning for that. Do you have a view about whether Virgin is interested in going back into or would be interested in the regulated routes; and, if so, what would be the nature of the tender that would have you interested? Right now, you have just got Esperance–Albany—that is one—and you have the other routes up the west coast, which is another. Is there another tendering approach, for example, the whole damn lot at one time, where you have a critical mass that you might be able to pitch all your fixed costs to or spread over? Have you got a view about how that might work, and is Virgin interested in those regulated routes to pick up some of that market?

Ms McKEON: I think to your first point, in terms of why we did not submit for tender for the Albany and Esperance routes when they came up last year, we were not able, even with exclusive rights, to make the routes profitable. I think that was for a couple of reasons. We probably did not have the right aircraft type to operate them profitably. You look at Rex, who is operating them today, they have smaller aircraft on the route, which are better sized and also enable them to operate a higher frequency, which is what the communities are looking for. There is also a cost element as well. Virgin was required to pay the security charges at those airports because of the particular aircraft that we

operated, whereas the maximum take-off weight of the aircraft that Rex operates falls below the threshold for those requirements. Those security costs were not insignificant. Because the routes were unprofitable is why we did not tender again. I would not rule out that in the future we would not look at it. As you say, it would depend on whether they were individual routes or package routes. I suppose, as a general observation, if you are talking about packaging up more routes, airlines operate a variety of aircraft types, they have crew bases in different locations, scheduling patterns are quite complex and it would be unusual to find an airline that was able to cover a really comprehensive range of routes. It would probably be quite inefficient. I suppose if the government was looking to regulate and/or subsidise, that would have to be built into the tender.

Mr S.J. PRICE: Can I just go back to the corporate part of the conversation. You said that you are not dominated as much by corporates as others. The first part of my question is to do with the old, I suppose, offering you had for community fares. Was that an online process? You said that it could either be done through Virgin directly or through a travel agent. If I wanted to book a ticket, could I just go online and go into a section where, as a community person, I could access those flights?

[2.30 pm]

Ms McKEON: No; I believe it was via telephone directly with Virgin or through a travel agent.

Mr S.J. PRICE: Okay. In regard to corporates, you certainly have a significant interest in corporate clients. We have heard anecdotal evidence through the course of our hearings that there are special deals done for the corporates. They get a discounted price. We have actually heard some figures about what the actual cost of the seats is to a corporate client. Can you give some insight into the way that you approach the corporate market in regard to what it costs them to get a seat on your plane and whether there are arrangements in place where they purchase a block amount of seats or anything like that?

Mr GEORGE: I am happy to take that. The corporate model that we have in place, there is a number of factors that come into it around whether they take a block of seats on an aeroplane or they get discounts off the full range of airfares that we provide. But in return for that, there is generally a spend across our whole network. It is not entirely just restricted to the regional WA routes; it is across the greater network. Yes, it is around arrangements where, depending on what that corporate customer wants, there is normally some regularity that goes with it. So while they have discounts in place, that is across—they spend a majority of the time through the entire 12-month period, or they have demand into the future. There are discounts in place but they are not necessarily as massive as what everyone probably thinks that they are. In fact, I can sit hand on heart and say that the average fare that we generate from our corporate market overall is still a higher number than what comes through the direct, or what the communities would be accessing today.

Mr D.T. REDMAN: Just as an extension to the corporate market, can you give us an idea of your approach to some of the bigger resource companies, for example? Have you got signed contracts with them for providing a particular pricing arrangement or group bookings or block bookings, whatever you might have? Do you have those arrangements in place?

Mr GEORGE: Yes, we have a range of corporate contracts in place for some of the people.

Mr D.T. REDMAN: And just to be consistent with my questioning of the other group: does that pricing arrangement that you have by securing group bookings for a service for a big mining company or an oil and gas company, does that affect the pricing of the other seats on the plane, given that presumably the tender processes have kept that low for them and therefore to meet your

minimum loads and pricing arrangements for a flight, you therefore have to get a reasonable average for what is left on the plane, which tends to be mostly domestic travellers?

Mr GEORGE: No. That has no material impact on—so that they are locking in for a group of whatever it is on a particular flight or whatever it may be, but the pricing provided is in line with what we talked about with the base-level load through to the —

Mr D.T. REDMAN: It is still a tiered pricing; it is not a flat price that all users —

Mr GEORGE: No, it takes into account the tiered pricing. Generally speaking, because they want that guaranteed, locked-in capacity, it is not at the discounted sale fares or taking any of that availability away from all the other initiatives with advance purchase fares and our lead-in prices.

Mr Y. MUBARAKAI: I have a couple of questions to ask the panel. As a committee, we have travelled and spoken to a lot of the community. We have had a few community forums. Some of the generic questions that have been raised, I am going to put across to your panel to get some answers. One of the most common questions we got asked in terms of the communities is: how come a flight from Perth to, say, Broome or Karratha, as a distance is similar to Perth to Bali or Perth to Melbourne, would substantially depreciate in price? Could you give us an idea as to why, when the fuel cost in terms of distance remains the same?

Mr STOKES: I am happy to take that one. I think, as we spoke before, we talked about that we have looked at different pricing mechanisms and different price offerings for these markets. Those, historically, have not seen those stimulate a lot of demand. If you compare it with the predominantly leisure markets, as you say Bali or Melbourne, where you have two big cities, you grow into the ability to stimulate demand through the larger population bases there to increase the revenue for the flight distance. Generally, if you are talking about those services, it is also normally on bigger aircraft as well, so the cost per seat reduces by the size of the aircraft. That happens as well; that is why we predominantly run wide-body, larger aircraft between the east coast and the west coast, to have a lower seat cost. I think that is probably one of the other factors to take into account when we talk about these markets.

Similar to your question about bulk mining bookings, you can look at them two ways. You can look at them, as you said, they are taking seats, or the other way to look at it is the cost of operating a 737, which is the 176-seat aircraft, on a seat cost is less than operating a 100-seater F100. We are operating predominantly F100s at the moment. With the slowdown in mining in the last couple of years, we have had to shrink back to get the right economics with these routes. It comes down to those facts; that the actual seat cost with the F100, which we will share as requested, is higher than the seat cost of the larger aircraft. That is a dominating factor, as well as the fundamental ability to stimulate the demand for the flight and what reacts to that.

Mr Y. MUBARAKAI: The other question that has been asked is, for example, flights from Broome to Karratha that are at 30 per cent capacity: what stops you as an airline from really subsidising last-minute airfares back to Perth on these aircraft? If someone wants to go at the last minute and buy a ticket, they are still paying exorbitant prices and you know that your aircraft is at 30 per cent capacity.

Mr GEORGE: I do not think that airfares would be—they are not exorbitant. If the aeroplane is at only 30 per cent capacity, the airfares will not be exorbitant.

Ms McKEON: We would still be selling sale fares in the market —

Mr GEORGE: Maybe not quite the sale fares, but they would be very low down the fare buckets. They would not be —

Ms McKEON: But they would be very low down the fare bucket, yes.

Mr GEORGE: I am not aware of any specific instance where that is the case. Generally, where the pricing is higher, there is limited availability left on that aircraft. Like we talked about earlier, the directional nature of regional WA traffic—Friday afternoon coming down is a peak time with the corporate. It depends on the time of day and the day of week of operation, but if a plane was at 30 per cent capacity, they would not be anywhere near at the higher end of the fare level at all.

Mr Y. MUBARAKAI: Would you say that the subsidy or the sale factor is not as close to \$99 a ticket back to Perth, say, at the last minute? Is that the case? Are airfares as low as —

Ms McKEON: As they were a month out?

Mr Y. MUBARAKAI: Yes.

Ms McKEON: Generally not.

Mr STOKES: Generally not. Based on the example you gave there, the aircraft would be at the lowest structural fare, is what we call it. For us, that is our T-class fare which would be sitting—that is where we leave it. We would not be on sale at the day of flight.

Mr S.K. L'ESTRANGE: Just bringing it back to costs a bit for me: in your submission you stated that regional airport charges in WA are, on average, double that levied by regional ports in New South Wales and Victoria. Are you able to provide us with some data, on notice, of the actual per passenger cost for these airports to support that claim?

Ms McKEON: Yes, we would be happy to.

Mr S.K. L'ESTRANGE: I know you are going to do it for us for the regional centres; it is so that we can get some comparison between the west coast and the east coast.

Ms McKEON: Yes; very happy to.

[2.40 pm]

The CHAIR: Just to pick that point up as well on airport charges: your submission states that there is a growing trend for local councils to grant management rights to third party operators, that a lot of the revenue derived is used to invest in other community infrastructure, and that this is contributing to reasonably high airfares. Do you have direct evidence of this in the regional routes in Western Australia?

Ms McKEON: The trend that is referred to there, in terms of councils granting the management rights of an airport to third parties, is a growing trend nationally. Probably an example in the WA context is Port Hedland airport. AMP Capital and Infrastructure Capital Group has recently taken a 50-year lease from Port Hedland council and the rights to the airport. I think it is a \$205 million transaction, and \$40 million of that will go towards redevelopment of the airport over the next five years. Really, the question for us in all of that is: Does the \$40 million reflect operational requirements for redevelopment at the airport? If so, what does that look like? We are also interested to know what sort of return will AMP be looking for on their \$165 million investment. We have not been consulted by any of the parties in relation to those arrangements, but certainly we are looking to engage to understand more about that.

The CHAIR: Is that the case you refer to here, where you say —

In a recent case with one privately-operated airport, consultation regarding new investment was extremely poor and there was a complete lack of transparency regarding pricing impacts.

Ms McKEON: No, it is not, but we would be happy to provide you with some further details of that case in confidence.

The CHAIR: Okay. Some of the more, I guess, critical comments with respect to airport charges made within your submission have no bearing on the regional airports in Western Australia?

Ms McKEON: Which comments are you referring to?

The CHAIR: You have referenced here airport charges and third party operators and the contribution that is making to high airfares and then some criticism is levelled at a lack of consultation. But that is not with respect to regional Western Australian airports.

Ms McKEON: Yes. I beg your pardon. It is, and I said we would be happy to provide the details of that case in confidence to you.

The CHAIR: Okay. To come to consultation regarding services and lack of transparency, we have had quite a bit of evidence presented to us on the approaches that the two major operators on unregulated routes take to community consultation, and not all of it has been particularly positive; in fact, there was some evidence offered to us just today about the way that Virgin consults with its communities. We have had, for some other operators, some really glowing commentary on the way that airlines engage with local communities to make sure that the services that they are offering suit the community's needs. Could you give us an understanding of how Virgin goes about its engagement with local communities and how frequently you consult? I guess, how do you bring your communities that you operate with along with you?

Mr GEORGE: I can probably take that one. I would be very interested to hear where the particular complaint has come from.

The CHAIR: There are several and the transcripts are published on our website.

Mr GEORGE: Okay. Generally, the approach that we take is we will meet with key stakeholders on an as-required basis on request or where we catch up with the other key stakeholders, whether it be the regional tourism operator, whether it is Australia's North West Tourism or those types of bodies. We will generally go up with a community event of some description that we have sponsored or the like, but generally we will consult with the local council or chambers of commerce and any major local industry offices that are in the regional community.

The CHAIR: So who does that within your organisation?

Mr GEORGE: It could be a regional manager that we have from a sales perspective. We also have our different operational teams, whether it is the ground ops when they are going up and doing their visits and the compliance side. We will meet with the airport operators as well or the local aerodrome people. It does not have to be one specific person that normally goes.

The CHAIR: We have just had some evidence that in some regional centres, the local community, the local government, the local chambers of commerce and the local tourism operators are very interested in developing destination marketing packages and have approached the airlines to discuss that, but they have said that they have had engagement with Qantas but they found it very difficult to have those conversations with Virgin. I just wonder whether they are just asking the wrong parts of Virgin or they are not talking to the right people or is there some way that perhaps Virgin could outreach more proactively to those organisations?

Ms McKEON: That is disappointing to hear. I know, for example, that recently with Australia's North West, we have supported a lot of travel agents to go on a familiarisation supported by that particular RTO, and that is something that we do quite commonly. But certainly, yes, we are very happy to look into it.

Mr GEORGE: Just further to that, we have worked with a lot of the regional tourism operators, but we tend to work with the RTOs more than individual tourism businesses to take the better viewpoint for the region.

The CHAIR: To get a scale, yes.

Mr GEORGE: And so there is not just one particular tourism operator, and that it is managed and is about the region itself. We have a series of TV programming on WA. At our cost, we have provided airline seats for them to go in and film a number of different segments in Onslow, Karratha, Broome and Kununurra. That is support that we provide, where it gives the tourism operators and the different regions the opportunity to get the exposure when those programs are put to air.

Mr S.J. PRICE: I suppose one of the other questions that we have asked a lot of other people we have spoken to is about cabotage. Do you have a view on that?

Ms McKEON: Yes, we do. Virgin Australia is on the record as saying that we would not support the introduction of cabotage, even on a limited basis. We understand that, at face value, it might appear attractive for some regional communities, but our view is that over the longer term, it would likely have a detrimental impact on both the Australian aviation and tourism industries. What you would have is a situation where a foreign carrier would operate on the route—say it was Broome–Perth, for example—and it would be able to offer capacity at a marginal pricing level that would be lower than the cost faced by the domestic operators. So, over time, what you would likely see is the domestic carriers withdrawing capacity from that route and redeploying the aircraft on to higher yielding routes. I think it is really the domestic airlines that put the bulk of the investment into marketing and tourism promotion activity in the regions, and you would not see that happening with foreign carriers. I think it is important to remember that three-quarters of tourism activity in this country is domestic, not international. If that was withdrawn from particular regions and you just had domestic carriers operating on the trunk routes, that would really be to the detriment of regional tourism. We think that cabotage for foreign carriers is an opportunistic short-term play, but would not be helpful to the tourism industry in the regions over time.

The CHAIR: Thank you very much for your evidence today. One of the key messages to come through from the questioning that we have undertaken today is hopefully that the real challenge that we face is information. Certainly, on the regulated routes, where there is quite a high level of information provided, there is quite a bit of transparency and therefore community understanding about what the reasons are for the airfares being such as they are. That same degree of information is not available on the unregulated routes, and the questions that we are being asked and the views that are being put to us by regional communities about pricing of airfares is very much driven by a frustration at the lack of transparency and the lack of information that is available. We certainly do look forward to receiving more detailed information from you on a confidential basis on the structure of your costs and the way in which airfares are constructed. We do appreciate that.

Mr S.K. L'ESTRANGE: Just to clarify, Chair, the things you took on notice today are not confidential, but if you want to do in camera with us to go through the detailed confidential stuff, that is a separate matter. The clerks will chase up with you to organise a time. That is just so that we are clear.

The CHAIR: They can provide information to us and request that we keep it in confidence in response to today. When you provide us with a response, you can request that we keep that in confidence, but then we would also appreciate a session with you to go through a bit of a briefing on how this all works. That would be greatly appreciated.

I will proceed to close today's hearing and thank you for your evidence before the committee today. A transcript of this hearing will be emailed to you for correction of minor errors. Any such corrections must be made and the transcript returned within seven days of 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. The clerks will provide you with additional information on the confidentiality provisions just to make it crystal clear what we can do. Thank you very much.

Hearing concluded at 2.50 pm
