

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



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

SESSION TWO

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 10.24 am

Mr ANDREW DAVID

CEO, Qantas Domestic, Qantas Airways Ltd, examined:

Mr ANDREW PARKER

Group Executive, Government, Industry and International Affairs, Qantas Airways Ltd, examined:

Mr GUY WADDELL

Head of Domestic Revenue Management, Qantas Airways 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 the Chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee to my left: Sean L'Estrange, deputy chair, 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 you might say outside of today's proceedings. I also 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 in its investigations.

I would like to thank you for your submission to the inquiry. I will ask you a few questions and then turn over to my colleagues, but I will invite you to make an opening statement before I do that. Do you have any questions about your appearance in the hearing today? No?

Mr DAVID: No. We are fine, thank you.

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

Mr DAVID: Certainly. Thanks, Jessica, and thanks for the time this morning.

I appreciate that the value of this session is all about Q&A, but if we could just run quickly through our opening statement. Qantas welcomes the opportunity to appear before the Economics and Industry Standing Committee. While we are committed to assist the committee to the fullest extent possible, commercial sensitivity and contractual obligations dictate that in respect of confidentiality there may be some limitations about the kind of information we can provide in this forum.

The Qantas group represents a significant part of the Western Australian economy. A report in November 2016 by Deloitte Access Economics found the group contributed \$1.1 billion to the WA economy, while direct and indirect employment for the group was 4 232 full-time equivalent employees per year. In addition to this significant economic contribution, we have also committed to launching Perth-London flights from 24 March 2018 onwards. This is unlike any other any route launch. It promises to be a game changer for Western Australia because it means customers will stopover in Perth, rather than the traditional Middle Eastern and South-East Asian hubs. The economic stimulation from the introduction of these services is estimated to be up to \$140 million per year, and 356 full-time equivalent employees. The marketing opportunity alone of Perth-London represents huge value for Western Australia.

Since announcing the route we estimate there has been approximately \$80 million worth of promotion for Perth–London, which naturally attracts more attention to destination WA. On top of that, the group is also in discussions with the Western Australian government with regard to Jetstar operating into regional WA, and addressing some of the challenges that currently exist. We welcome last week's announcement by the state government, whereby an additional \$36.5 million has been allocated over four years to grow the tourism industry.

With regard to airfares, Qantas currently offers competitive and readily available lead-in fares across its regional Western Australian network. Last week, as an example, sale fares in regional WA started at \$119. The Bureau of Infrastructure, Transport and Regional Economics data on domestic airfares confirms that in real terms as at June 2017 all fare categories are lower than they were in 2003. Best discount economy fare, for example, was 38.5 per cent lower, despite Australian CPI increasing by 32 points over the same period. So, while domestic airfares have in fact decreased in real terms, other parts of the consumer economy are becoming more expensive. I emphasise the critical nature of this fact as it coincides with the significant decrease in demand to regional WA as a result of the mining and resource downturn. Lower prices and falling patronage puts strain on the economics of the routes. You can add the 14 per cent increase at Western Australian airports over the same period. I would also note that in regional WA Qantas fares were on sale for an average of approximately 25 per cent of FY17, with only 20 per cent of seats offered in these sales categories being purchased.

[10.30 am]

As far as airfares go, it is generally true that they are more expensive in peak periods than in low periods. That is the way all aviation markets around the world operate, and other industries such as hotels and car rentals, for example. The majority of these markets in WA are driven by FIFO and corporate traffic, and therefore without this demand underpinning these services the level of frequency and capacity will drop dramatically. It should be noted that since the beginning of the mining boom Qantas's revenue on mining and resource routes has decreased overall by \$255 million.

There is no way around the reality that operating regional WA sectors is costly. This market has unique characteristics that make it the most expensive on the Qantas Group network. Airport costs are high. It is true that they only represent a small percentage of the total fare, but airlines globally only make an average of \$7 per passenger, and therefore charging over \$30 for passengers to land and take off has a dramatic effect on an airline's ability to operate the route. Based on a per-passenger-charge calculation, these airports are all in the top 15 most expensive airports in the group's domestic network.

Another factor of the high cost is directionality. In WA regional towns where demand is underpinned by FIFO traffic, the demand is unidirectional. Effectively, Qantas operates full planes in one direction, and relatively empty planes back. This is extremely challenging for airline economics and manifests itself in the cost of airfares. The high cost and difficulty associated with operating in the regional Western Australian market is highlighted by the fact that since 1960, 48 airlines in Western Australia have been acquired or become bankrupt. This reveals the challenge of maintaining viable operations in an extremely complex commercial and operational environment.

In conclusion, I want to emphasise that we are speaking about complex issues. While there is no easy solution, there is an opportunity to improve the regional WA market by addressing the high cost of operations into regional WA ports—with a specific focus on airport charges—and stimulating demand into regional WA, including the diversification of economies. For tourism towns, investing in the ground product and assets, including the consideration of an investment scheme which

encourages private entities to invest in tourism facilities in regional WA, and considering ways of further utilising current or future WA regional initiatives. Finally, for towns where tourism development is not a viable solution we believe our discounted fare scheme is a positive initiative to make air services more accessible to residents. Thank you, Jessica.

The CHAIR: Thank you, Mr David. I acknowledge the comments you made in your opening remarks about the contribution that Qantas makes to the WA economy and the announcement of the Perth to London fare. I do think it is a very exciting development; however, the focus of this committee's inquiry is on intrastate air routes. This committee has travelled across regional Western Australia. We have worked in a number of regional centres, we have had additional submissions from a range of other regional centres, and indeed over the coming days we will be hearing from more communities about the impact the high airfares have.

I understand the points in your submission about the fact that business travel underpins a lot of the services that Qantas offers throughout regional Western Australia, but the communities in regional Western Australia are hurting. Much as you say that 25 per cent of fares are offered on sale and 20 per cent of those sale fares are taken up, that is not the travel that is concerning this committee. The people in regional Western Australia, when they need to travel—when there are emergency situations that cause them to travel—we have heard the evidence that they are facing exorbitantly high airfares. They do not have the luxury of booking months in advance.

In light of that, I would like to very clearly understand what Qantas's approach is to its corporate social responsibility obligations to the towns and the communities of regional Western Australia.

Mr DAVID: As evidenced in the initiative that we announced last week, we, too, have run our own focus groups and we have spoken to residents in WA mining towns. We have also done the same in Queensland. We have run focus groups in Mount Isa, Broome and Karratha. We have listened and we do understand those concerns, which is why we made the announcement the week before last of this 12-month trial which brings into effect a 30 per cent discount at the top of the range for residents, 10 per cent at the bottom end—80 per cent of our fares are sold in that bottom end. Two per cent get sold at the very top end to residents, and that is where the 30 per cent discount applies. As you have pointed out, there are those occasions—albeit two per cent of travel—when people have to travel at the last minute, which is why the 30 per cent discount has been introduced. There will be a maximum of four return fares. Residents will be able to book via a travel agent or online, and we will set that facility up over the next month. We will work with the residents over the next 12 months to gauge how that initiative is working, and what that initiative does to address the issues that you have just raised.

The CHAIR: So 30 per cent off the most expensive fare that is available on a particular day to respond in an emergency situation, on routes that are underpinned by government and business travel—where is the compassion in that? Where is the compassion? It is 30 per cent off your most expensive fare.

Mr PARKER: Chair, I would say 30 per cent is not an insignificant discount and, as Andrew said, we are talking about two per cent of the market who are booking this late. I would also add that, although we have had support from several airports—one in Western Australia so far, in Kalgoorlie, which will importantly contribute to additional discounts by waiving the residents' cost of landing charges—other airports have so far remained silent on the initiative. I do not think we accept that 30 per cent is somehow not a meaningful and significant discount for those two per cent of customers who have to book late, and airports, we hope, will come to the party to support that number to make it larger, given their important contribution and the costs of doing business in intra-WA.

The CHAIR: The airports themselves have actually been remarkably transparent in terms of how they charge for individual passengers, and what their landing fees are, their screening fees. They have given us a remarkable level of granularity. On a significant proportion of the fares that we are seeing, airport costs constitute a very small part of the fare. I do not really think that the airport landing fees are necessarily going to move the dial to the extent that it is going to really assist regional communities. I would really welcome an indication from Qantas as to whether it intends to provide us with a measure of transparency and openness, so that we can test whether there genuinely is some sort of fairness in the pricing that you offer these people in regional Western Australia.

Mr PARKER: First of all, I am happy to come to the transparency point, but we most certainly do not accept the premise that airports do not have a role to play in the cost of doing business in Western Australia. It is just not correct, because, as Andrew said in his opening statement, all the airports mentioned in intra-WA feature in our top 15 most expensive airports in Australia. If we were to compare Broome, for example, it is more than double the cost to operate for an airline than, say, Cairns on the east coast. Something is not right here.

You have had other councils who have identified the fact that airports, of which landing charges are a principal source of income, are the major profit centre for the council. Evidence internationally and across Australia is, when airlines on average globally make \$7 profit per passenger, landing charges above \$30 most significantly affect route economics. It is why, for example, as one reason, you do not see low-cost airlines operating in Western Australia in terms of regional centres. It is because market economics are so thin and so critical to incentivise a low-cost carrier into a market, given their lower cost structure and lower fares, that when you have high and sometimes exorbitant airport charges, you diminish any incentive for that sort of carrier to enter a market, as well as for airlines like Qantas to make a sustainable return on investment.

[10.40 am]

The CHAIR: I really want to tease out the language that you have used around making seven dollars per passenger globally. If I might just pick this up, with this \$7 per passenger globally, what are you making per passenger in regional Western Australia, on the different routes? Are you prepared to provide us with that information so that we can have some degree of transparency?

Mr PARKER: We do not break down individual routes, and that is for a range of reasons. There are ACCC obligations, in terms of what we disclose. There are also competitive pressures, and there are also commercial arrangements we have with corporate customers. We are very happy to be transparent, and take you through the cost implications, the cost breakdown, as well as the fact that of the routes in Western Australia, some returned their invested capital, some are marginal flying, and some lose money. It is a fluid and dynamic network, but some of the testimony that you have received that says we are making large profits on intra-WA, and subsidising other routes is most certainly not correct, as well as the testimony that somehow airport charges and other input costs of operating into Western Australia are meaningless or marginal in impact. That is most certainly not correct.

Mr DAVID: I would come back to the fact that we have been very, very clear with the market, and stated again this morning that since 2014 we have seen \$255 million of revenue disappear from Qantas because of the decline in mining and resource traffic. It is \$255 million; we have been very clear with the market. What we have had to do to adjust to those changing economic circumstances is put in smaller aircraft into these markets, because otherwise we would have very, very low load factors. On some of the routes in WA, as opposed to perhaps what you might see on the east coast,

we operate with lower load factors, and we have had to adjust the coordinates. So we have seen the impact of that.

Perhaps, Jessica, we could—I just want to make a general point. We are here to be open and transparent. We do see this as an opportunity to share information and provide education. As much as we will be transparent, there are obviously both competitive and regulatory rules that apply to limit how much we can be transparent, but we will certainly do whatever we can. We are here to educate. We do understand the issues facing customers. It is why we have taken action. We acknowledge this is a 12-month trial. We are going to see how that goes, and we do acknowledge we have got two different markets here. We have got some markets that are purely mining markets, where we cannot stimulate the traffic, whereas other markets, like Broome and Exmouth, we do want to work with the Western Australian government to find ways to continue to promote those markets for tourists.

Mr S.K. L'ESTRANGE: There are two important questions that come out of what I have heard so far today, Mr David and Mr Parker, and I was wondering if you could just help me with these two questions. The first one is more to you, Mr David. Can you explain how you calculate the cost of an airfare to a specific town in Western Australia, particularly how you calculate the cost of an airfare for those that are purchased close to the date of travel? Are you able to provide that information?

Mr DAVID: What I might actually do—Guy, would you like to just talk about how we run the revenue management system and how it works? Why do not you just talk to that? I think that is what you are asking—how do we derive these fares and how do they operate?

Mr S.K. L'ESTRANGE: More specifically, it is closer to the date of travel, because one of the things that we picked up from listening to community submissions or receiving and listening to community members was that sometimes they had an emergency health situation or family situation where they had to purchase a ticket, sometimes within 48 hours, and that the price of those tickets were very high, compared to what they were seeing at other times during the year, for example. So the question is quite specific. How do you calculate the cost of an airfare to a specific town in Western Australia, particularly those purchased close to the date of travel?

Mr WADDELL: I will start with a generic answer, and it applies to each of these markets, not just on intra-WA, but across the total domestic market and indeed globally. Typically, you will find, with markets, that there is a range of customers that engage in a market, whether they be price sensitive or non-price sensitive customers, so we offer a range of prices through the booking cycle. This is not just applicable in Western Australia, but it is applicable Australia wide. Your lowest fares are typically found further from departure, when you have your most price-elastic customers, and as you get closer to departure, on high-demand flights, the price increases. That is how the pricing structure works, and the pricing structure is relevant to the costs of the operation. The prices that you see in the market are relevant to the cost as well as to the demand for —

Mr S.K. L'ESTRANGE: So are you saying that the cost of operation close to the date of travel changes?

Mr WADDELL: No, the pricing is relevant to the cost of the operation. Lower fares are found further from departure, and on high-demand flights, higher priced fares are found closer to departure. There are many flights that we operate intra-WA which are very low demand, which have low prices close to departure, and there is a small number that have very high demand close to departure.

Mr S.K. L'ESTRANGE: Are you able to maybe submit to the committee some examples of how this works?

Mr WADDELL: Not here but —

Mr S.K. L'ESTRANGE: Taken on notice?

Mr DAVID: We would be happy to give you a breakdown, particularly of where we see directionality in peak demand on certain routes.

The CHAIR: And why the cost escalates. I hear your answer, Mr Waddell, but I do not think you have actually answered Mr L'Estrange's question, insofar as why, if the cost of a flight is the same on any day of the week, people are having to pay significantly more the closer they book to a date, when they are very often travelling for very urgent matters. Why?

Mr DAVID: I appreciate the issues that we are dealing with here in regional Western Australia, but I come back to Guy's earlier point. This is how all airlines manage revenue across all markets, and what quite often happens is that we get apples-for-oranges comparisons. If you take, for example Sydney to Los Angeles, the most expensive economy airfare. Full economy is \$4 000 one way. Some people pay that. What quite often gets pulled out and compared is the lowest fare in one market—an international market—with the last-minute full economy in a local market, Broome to Perth, for example. It is easy to do a comparison the other way as well, and take the lowest fare in Broome. The Broome to Perth average fare paid is just over \$300 one way. It is easy to draw a comparison with the full economy. All airlines, right around the world—we do this in all our markets—will manage the demand and supply. As you get closer to the day of travel in peak periods, you will pay more, and that applies in every market. It is not unique to this market.

Mr S.K. L'ESTRANGE: Picking up on Mr Parker's point earlier, that the costs of airports in Western Australia are considerably higher than the east coast, and you used Cairns as an example today, in your submission you said that eight regional airports in Western Australia are all in the top 15 most expensive airports in your group's domestic network, based on a per passenger charge calculation. Are you able to provide, if not today then through an on-notice submission to this committee, a comparison of the actual costs for these airports, compared to regional airports in, say Queensland, New South Wales and South Australia?

Mr PARKER: Yes, certainly we can give you some insight into certain markets. There may be commercial contracts at play here with individual airports that preclude us from doing so, but I think we can certainly flesh out some more information and give you comparisons, pending some of those—we would like to share more, but obviously airlines and airports negotiate terms, and sometimes those terms are commercial in confidence.

[10.50 am]

Mr S.K. L'ESTRANGE: In the interests of transparency, what we are looking for is to be able to understand better to compare our west coast domestic travel routes with, say, the Queensland domestic travel routes so that we can get an appreciation and an understanding of why certain airfares on the east coast, using your same airplanes, for example, may cost half of what they cost on the West Coast. We are looking to try to understand what the cost factors are that are impacting on the price of tickets for regional travel from the east compared to the west. If you can support us in providing some information on that, it would be most helpful.

Mr PARKER: We would be very happy to. We also want to understand this better. We do not fully understand why, for example, airport costs in regional Western Australia are as high as they are. There may be some legitimate reasons for some elements—distance, for example; sourcing; different requirements to operate an airport. We have not really heard that justification. We have only really seen in evidence presented thus far that it makes no material impact in terms of the cost of airfares. I think you will hear from, not just the Qantas group, but other testimony, that that is

absolutely not the case. We do not understand why it is not just, say, far North Queensland but Western Australian airports are up to three times more expensive than they are in regional New South Wales.

Mr S.K. L'ESTRANGE: It is important for us to ground-truth, from your perspective, some of the evidence that we have received from airport operators to get a great understanding of the cost structures around those airports and how they impact on groups like Qantas. Any further information that you can give us to help us to understand the answers to the questions I have asked today would be appreciated.

The CHAIR: Just to pick that point up—it is equally important for us to ground-truth the assertions that you are making around your cost structures and the reasonableness of the airfares that you are charging. I do not accept that just because every other airline in the world prices in this way, we therefore do it and that is just the natural order of things and it is quite reasonable, therefore, to charge regional communities exorbitant airfares to travel on what is basically their only form of public transport. It is not a luxury for these communities. It is not a luxury for these people; it is a necessity. I do not accept that just because everybody else does it, we do the same.

Mr PARKER: It is also the fundamentals of supply and demand. We are trying to eke out a sustainable return so that we can sustain these services. We do that, like airlines all over the world, by offering a large variety of different airfares. We try to stimulate demand with entry-level sale fares but we also know what the cost of doing business is. That is why we incentivise as many residents as possible to plan travel. To your point, yes, in two per cent of cases, of those ticket prices that are higher end of the spectrum, there is a legitimate issue, particularly because of the characteristics of the six cities that we are talking about in that they are so regional and mining dependent, which is why we announced what we did 10 days ago—offering material and significant discounts that are particularly advantageous for the higher end of those fare categories.

We have huge variety of different ticket fares for sale where we are trying to build a revenue platform to ensure that these services are sustained. As Andrew said, we have seen \$255 million come out of the intra-WA and regional mining sector in terms of revenue. These are significant challenges for airlines, which is why we have tried to maintain schedules, for example, by down-gauging aircraft so that we are providing the community with daily services and with reliable regular services instead of removing service to match demand in a more brutal way.

Mr S.K. L'ESTRANGE: Based on that answer, are there any air routes in Western Australia that have seen usage rates drop to a level that they should be regulated?

Mr PARKER: It is a very good question. We have seen some very significant reductions of 30 to 40 per cent in terms of demand falls on specific routes. We have concerns about regulation of routes because, fundamentally, as Andrew indicated in his opening statement, airfares are falling in Australia. You will always find exceptions to that rule, be it last-minute bookings on school holidays, for example. Fundamentally, airfares are coming down circa 40 per cent in the last 12 years. There are not many parts of the economy, be they electricity prices, be they the cost of an iPhone, be they the cost of a new car, where you have seen in a decade circa 40 per cent reductions in the real cost of purchase power. That is not our numbers; that is the federal government's own data. There is a debate that could be had around what happens to certain the markets when demand falls so significantly that you lose service and airlines.

Mr DAVID: The short answer is no. What concerns us if we were to see regulation—what we would worry about—is that our fares for residents could well go up in a regulated market. That would be other concern, in answer to your question.

Mr S.J. PRICE: Mr Parker, you just mentioned previously about when we talk about some of the flights, the cost of doing business in regional WA. We really would like to understand that cost of doing business. This comes back to our key theme in regards to transparency. I understand that there is commercial sensitivity associated with this. Would you be prepared to go in camera and give us a better insight into what the cost of doing business in WA is.

Mr DAVID: Perhaps if I could talk you through a relevant example. Maybe that would help.

Mr S.J. PRICE: Is it going to give us a good insight into what these costs are? We have been around the state and people do not understand why airfares are so expensive. People do not understand why, when they have to pay the higher price for an airfare, they get on that plane and it is 50 per cent empty. We are trying to understand and give ourselves that knowledge so that we can respond to the concerns of the Western Australian community. This has come through. It is exactly what Jessica has said. This community concern and anger about, in their view, you are gouging them for everyday transport. They are not happy about it and we are trying to manage the situation and get an understanding as to why that is.

Mr DAVID: I will come back, perhaps, to markets like Exmouth and Broome with tourism, where there are opportunities to stimulate traffic. If you look at the other mining towns, I will come back to the stat that we shared before. We have 25 per cent of our inventory on sale and we only sell 20 per cent of it. When a flight leaves here on Monday morning taking mining traffic out to Karratha, it comes back with a 30 per cent load factor. It does not come back with 80 or 90 per cent. We put sale fares into the market and people do not buy them because they do not want to come back to Perth at 10 o'clock on a Monday morning. We try to stimulate these markets but they do not operate like other markets. There are unique characteristics of these markets.

We have heard the noise as well and we have responded with the 30 per cent through to 10 per cent. I want to emphasise the fact that this is a 12-month trial and we will continue to listen to these communities and work with them because there are unique characteristics. Our normal way of filling a plane by stimulating through sales does not work in those particular markets at certain times.

Mr S.J. PRICE: I will ask my question again. Are you prepared to go in camera or in private and explain some of those costs to us?

Mr PARKER: I think you will also see on pages 3, 4 and 5 —

Mr S.J. PRICE: It is a yes or no question.

Mr PARKER: In our submission we go through some of those costs. We talk about maintenance costs and we talk about fuel.

Ms J.J. SHAW: It is a lightweight submission, Mr Parker.

Mr PARKER: I do not accept that but I think that we are happy to go into more detail where it is required if you would like specific information, particularly on airport costs because it is not just Qantas. There is other testimony where airport charges have been called out as some of the highest in Australia. We are happy to be transparent and be happy to be in camera, where it is appropriate.

Mr S.J. PRICE: We know what the airport costs are. The airports have been very transparent with us and have given us that information. What we do not know is the gap. For example, we know what it costs to land in Broome and we know what it costs to land in Perth. You now tell us that you only make \$7 profit per passenger. What makes up the rest of the ticket price?

Mr PARKER: We are happy to take you through that in this great as detail as you like but, as I said, in the submission we talk about the unique additional costs of what it takes to operate in

Western Australia. That includes fuel. That includes maintenance cost, and that includes labour costs. It is because of the remoteness of some of these markets.

Mr DAVID: The answer is that we can and we will. We are just going to have to—obviously there are some things that you will have to just give us a little bit of time to work through and think through any commercial and regulatory sensitivity around. For example, we can talk broadly about the difference in airport charges between Cairns and Broome but there is commercial sensitivity around deals that we are not allowed to share. As best we can, we will talk you through.

[11.00 am]

There is one important factor here, economies of scale, as well, that we have not spoken about. If you take a market like Sydney–Cairns versus a market like Perth–Broome, the population of Cairns is 10 times the population of Broome; 27 per cent of all the traffic into Cairns is international inbound, as in international travel, and eight per cent into Broome is international. Therein lies an opportunity to work with the WA government to stimulate tourism into Broome. You increase those numbers, you get greater economies of scale, you can get more asset utilisation out of your aircraft; the more you fly them, the more you are spreading your fixed costs. The bigger aircraft means you have a lower unit per seat cost, but you can only put bigger aircraft in if you can fill them. It is pointless flying around a large aircraft that is half-full or 30 per cent full. Therein lies our dilemma with the mining communities.

Certainly with a market like Broome, if you can drive up economies of scale—and while I appreciate the focus is on regional residential fares today, the opportunities to bring traffic direct from Europe into Perth and to work with the WA government to stimulate other traffic, will allow us to work with you to potentially grow tourism into markets like Broome and Exmouth. It is quite unique in these other towns. We all agree on that. That is why we have taken the initiative that we have, because there are unique characteristics. We would love to stimulate—we would love 80 per cent load factors both ways. But you simply cannot stimulate a market like Karratha —

Mr D.T. REDMAN: Mr David, you can see the challenge the committee has. You are putting a testimony to the committee here which is not giving us the level of drill-down that would give us satisfaction that the pricing arrangements that you are putting in place would be considered by the community in Western Australia as fair. We go out into the community and they say, “This is unfair.” Whenever we have asked them, they are saying this is an essential service for our communities. They are saying that gouging has occurred, as one of my colleagues has mentioned. The consequence for us not having visibility on that is you go to a recommendation that means into the regulated space, which is not where Qantas wants to be, because you have just said you would prefer to stay in the deregulated space so you can operate commercially, as you would like to. That is one of the potential costs to Qantas of us not having visibility of that.

I am sure if I asked you the question, and you might be able to clarify it, is there market failure on any of these routes—we have just about unanimously on the key routes in Western Australia said that there is market failure here because we are having to pay a price that we think is unreasonable for meeting what they consider to be a fair and just public transport arrangement.

Mr DAVID: As I said, we will come back to—we have obviously just got—I am not trying to evade the conversation or the point here. We just need to work through some of these things, but we will come back to you and work through as best we can with the overlay of commercial and regulatory issues that we have to deal with.

Mr D.T. REDMAN: Do you think the commercial market is working in the routes that you operate intrastate in Western Australia?

Mr DAVID: I will come back to two points. The average fare for WA residents has come down. And the tendency is to focus on these headlines of which two per cent pay those—the average fare has reduced by how much?

Mr WADDELL: Seventeen per cent in real terms since 2012 and nine per cent in nominal terms.

Mr DAVID: Nobody is talking about that. We can walk you through that.

Mr PARKER: That is fact-based. That is us being transparent, sharing with you real numbers.

The CHAIR: If that is indeed the case, we would welcome information on that. When you are considering preparing more information for this committee's consideration, I would refer you to the evidence that has been provided to us by Curtin University, where there has been some quite detailed study done which has demonstrated that on the regulated routes where there is transparency and there are obligations to disclose information, prices are far lower and are far more stable, less volatile, than on these unregulated routes where markets and competition is supposedly functioning effectively.

Mr PARKER: We just happen to take a wider view, which is internationally regulated routes typically have not succeeded unless —

The CHAIR: We are not talking about internationally regulated routes though.

Mr PARKER: No, I am talking about Australia and I am talking about the international precedent. For every Curtin University, I can give you studies in Australia and elsewhere that demonstrated regulations have not succeeded. That is ultimately a decision of the committee. There are exceptions to the rule. We use the example of Lord Howe Island, for example, which is a very small market that has some unique circumstances that require a degree of regulation. But broadly most state governments in Australia, including in Western Australia, have historically deregulated routes because the outcome has been lower airfares from what we were in the 1960s and 1970s where there was a heavy-handed approach.

We are most certainly happy to be as transparent as we can within the limitations of the law and commercial contractual agreements. But there is a body of evidence, for example, of coming back to input costs of airports, of what the ACCC, for example, has done in studying what is unique in Australia, including in the regions, of why we have the highest cost airports in the world. I just think it would be unfortunate if this committee did not drill down further into why the input costs are so important in this debate as opposed to just a headline number around airfares that in Qantas' case impact two per cent of users.

Mr S.K. L'ESTRANGE: Mr Parker, just getting back to last-minute travel decisions of community members in remote and regional parts of Western Australia, can you provide the committee with the number of tickets purchased for travel to or from Kununurra, Broome, Karratha, and/or Kalgoorlie that were purchased within three days of travel for the year 2016–17?

Mr WADDELL: We can provide that, but not here.

Mr S.K. L'ESTRANGE: So take it on notice.

Mr PARKER: We will take it on notice.

Mr DAVID: It would not be too dissimilar to the two per cent. It is a small percentage.

Mr WADDELL: Remember on many of these markets, we have multiple frequencies that we operate. So back to the supply and demand question, a particular time of day or day of the week may have a very high demand and therefore the price will be high. That may be an evening departure or morning departure, but move to later in the day and the price drops. I appreciate that there are some of our

higher priced fares out there on high-demand flights, but also bring attention to other flights where they are much more aligned to the lower end of our tariff.

Mr S.K. L'ESTRANGE: Part of our inquiry is addressing the concerns of community members for those last-minute decisions often brought about due to health or family emergency situations where it is very much demand inelastic from their perspective. They have to get on a flight and they are often confronted with airfares which are possibly five times more expensive than if they had have booked three or four weeks in advance. We are trying to get an understanding of how many people, via ticket purchases, are in that situation. I do appreciate you taking that question on notice and I look forward to that response.

Mr DAVID: But I would come back to the statement we made last week. We talked about two per cent buying our full economy. We have applied a 30 per cent discount. It is a 12-month trial. We will continue to run our own focus groups. We will continue to work with both the WA and Queensland governments on this issue. The reason we have said it is a 12-month trial is because we want to learn with the community and we will adjust accordingly.

Mr D.T. REDMAN: The cynic might suggestion suggest that that trial or that negotiated arrangement, which as I understand when you are talking to people on the ground, did not start till about April, was post the government's decision to have an inquiry into this and this committee's decision to have an inquiry, and it spans very nicely over the period where we are having the inquiry. So it is a nice public commentary from Qantas at a time when this has a level of public visibility on it. You might make a comment about that.

Can I expand to a broader question? You talked about it being normal practice in the peak of the seasons to chase higher prices and certainly feedback is that in the off season there are lower prices. That seems to be counterintuitive to other evidence we have got that said three or four years ago when the resource sector was hotter in Western Australia, we did not have the level of concerns coming out of the community. They said, "Look, it is fine." We seemed to have fair prices then, but not now. Can you just draw the parallel between the seasonal issue versus since the resource companies have come off in terms of the level of heat in their sector, that the prices have gone up, which seems to be —

Mr DAVID: Guy, would you like to talk to what has happened with average fares and some of the other issues raised there?

Mr WADDELL: Inevitably, it comes back to a supply and demand equation. As we have come off the resources boom, demand has come off significantly and, as has been mentioned earlier, our retail fares have declined in that period both in real and nominal terms. We have visibility for the data in our systems. I am not sure how people relate those changes over time. So, as a fact, our nominal and real retail fares in intra-WA have come down since the peak of the mining boom.

[11.10 am]

Mr PARKER: I think, to your broader point, which deals with both the recent history question of the inquiry into Qantas as well as what was occurring during the mining boom which was, as Guy says, significant demand, so we had more profitable and sustainable services because demand was there and they were growing markets. Now we are having to deal with the complexity of diminishing markets whereby we are trying to maintain regular scheduled service for communities but have a fundamental problem, which is a significant drop in demand which makes, therefore, the whole economic equation more difficult.

I would just address your original point, which is, post the mining boom we have been in regular discussions with our major corporate customers, with councils and with airports, and with the

former government and this government, on the complexity of this issue. You are right to say that in the last 12 months, in particular, there has been a particular focus, again, we believe as a result of falling demand that has made the operation of the services more challenging, so we are very confident that what we announced last week is material. It is going to cost the Qantas group millions of dollars to implement this trial for the next 12 months, so this is not an exercise in responding to a parliamentary inquiry; it is the national carrier genuinely trying to respond to residents' concerns, particularly to your point about the more expensive end of the market.

Mr D.T. REDMAN: If I could just keep going on a point there, you talked about the corporate market and the importance of that. Can you give us some visibility of how you work with the corporates? I understand your very direct question about going in camera to giving us a bit more open response. You have not said yes to that yet, at least. In terms of you working with the corporates, one view out there is that on many of these routes that the airlines negotiate a deal with the corporates for a block booking across an aircraft. In fact, in the public forum at Karratha the gentleman who asked a question said, "My good friend here from Woodside gets a fixed price if he jumps on a plane, but I've got to hit whatever the price of the day is, and generally it's high if it's short term." Can you give us some visibility of how you manage that relationship and, I guess, if there are contracts in place and block bookings? Secondly, do you therefore have to make up a fair average across the seats of an aircraft in order to be able to meet your cost structures?

Mr DAVID: In effect what we have put in for the residents, because obviously anything we put in we have to make sure we can manage it day-to-day, so what we put in for the residents mirrors what we have for corporates. It is a volume discount off the tariff, so they get discounts, and no, we cannot share exactly how big those discounts are, because clearly they are commercially sensitive, but they have discounts off those airfares.

Mr D.T. REDMAN: This gentleman told us what the fare was for the Woodside fellow sitting next to him —

Mr DAVID: Yes, well, we clearly cannot do that, but what we can do is tell this committee that we discount against those fares for those corporates. We enter into an agreement with them, and they get discounts off those airfares.

Mr D.T. REDMAN: They have an arrangement where they do a block booking and then there are overs and under is that are rationalised at the end of the financial year.

Mr DAVID: No, it works exactly the same as it is going to work for residents. If you buy down the lower end, discounts are tiered, and that is what we have done with residents, so we can operate within our system, so we have given the residents those discounts. In effect, what we have said to a town like Kalgoorlie or Karratha with 17 000 people, we treat you like you are a corporate. You book through a special site, you get discounts. That is the way we operate.

Mr D.T. REDMAN: It would be fair to say, would it not, that the corporates have a much greater propensity to be able to know what their flight patterns are and hence get an early booking in place, which I would have thought, as a proportion of seats, would have a much higher proportion on the lower fare level than the higher fare level, if you are using the examples you have just described to me, which is not necessarily the pattern of bookings available to a domestic traveller.

Mr DAVID: I think it probably is a mixture and probably reflects residents. I mean in some cases, absolutely with FIFO, they are in Monday, Tuesday, Wednesday, they are out Wednesday, Thursday, Friday, on those regular rosters so, yes, absolutely. But then there is other travel that management would do that sometimes is very last-minute.

Mr D.T. REDMAN: A handful of executives, I am sure, but in terms of a proportion of your bookings, I would have thought the lion's share —

Mr DAVID: Well, no, that would probably reflect residents, because two per cent book at the last minute, and 80 per cent book in the lower range. I do want to come back to that point, and average fares have dropped. What we got out of the focus groups that we ran is feedback from residents that they expected, when the mining boom was over, airfares to come off dramatically. What we have done in response to that decline in demand is we have adjusted our capacity. What we have seen is average fares are down, and Guy referred to those numbers. In real terms, they are off 17 per cent.

There are these headlines and there is no doubt you have a lot more exposure to regional towns than we have through the work you have been doing over the last few months, but no doubt some of those people are doing it far tougher today than they were five years ago, and I am sure that is coming through. Prices that they would not have noticed so much five years ago, because the economy was more prosperous than it is now, it is more acute and more noticeable. Some of that came through in our focus groups.

Mr D.T. REDMAN: Earlier on I asked you whether you thought there was market failure; I am assuming your response to that would be not. The sense was that there is a duopoly in play whereby I am assuming—you have come in here and said, “We put this formula in in order to make our airline work, and that's what pops out”, because of a whole list of reasons you have given us about the uniqueness of these flights. I am assuming Virgin over there does the same thing; they stick their formula in and what pops out is the same, so we have two airlines operating largely with the same model that delivers the same outcome for the local community. Do you think there is market failure and do you think, as an extension of that, there is enough competition in order for market forces to be able to play out as the community would like to see?

Mr PARKER: I think there is one important statistic, which is since 1960, 48 airlines in Western Australia have gone bankrupt or been acquired, so this is a complicated market and a difficult market. We have seen airlines disappear because they could not make a sustainable return. We do not argue in market failure terms; we certainly do say some markets are extremely challenged and we, like all Western Australians, want to see regional Western Australia and their economies prosper again, and we work our way through this downturn.

But I think you also have to be careful what you wish for on regulated routes because a lot of that evidence of when airlines disappeared was when they were regulated, so we are trying to find a balance here between providing service and, I think, also to give residents credit, as Andrew has said, the vast majority of residents are booking at the lower end of the fare classes—the discounted economy tickets. So, yes, it is a high-profile issue of those who need to book late and that is why, just as we are doing with corporate customers, we are offering more significant discounts, and with the support of Kalgoorlie airport, making that discount even larger, but we are yet to hear from the other airports—will they match the support that Qantas is providing.

Mr DAVID: In a regulated market, what is most likely to happen is that you will reduce the range, but the average fare will go up for residents.

Mr Y. MUBARAKAI: Mr Parker and Mr David, you talk about the current situation being as it is. What I would really like to know is pretty much for Qantas; it does its due diligence on its routes on an annual basis. What I would like to know is pretty much which specific routes are a deficit for Qantas in the regional sector and which are profitable; and, if so, what revenue do these specific routes generate for Qantas?

Mr DAVID: We will not and cannot share specific route profitability market by market; we will not do that for commercial and other reasons.

Mr Y. MUBARAKAI: What stops you, Mr David, from doing that?

Mr DAVID: Well, commercial sensitivity. We have a business to run and we do not want our competitors to know exactly what profits we make market by market.

The CHAIR: We can take that evidence in camera and it can be held for 30 years.

Mr DAVID: In that case, we need to understand that process, but I am certainly not doing it here, in this forum, where we are going to share our sensitive market data with competition.

Mr S.K. L'ESTRANGE: Can I suggest that the clerks, after this session, may be able to explain to you what “in camera” means, what your rights are under an in camera hearing, and then we can take it from there?

Mr DAVID: Yes, okay. We can do that, then we will understand that process, and we will work through that with you. But in response to our meeting right now, which I know is public, I am not going to do that.

[11.20 am]

Mr PARKER: There are also ACCC considerations here on what we can and cannot disclose in terms of competitive information.

Mr WADDELL: In terms of market value, I just add one comment. In my experience, I cannot think of any case where competition has not benefited a market in terms of pricing, and we have a lot of experience with that. So each market is perhaps unique, but I cannot recall any examples where competition did not benefit consumers.

Mr PARKER: And in our submission, we did try to make the point that we believe there are two fundamental challenges here, which are a cost issue and a demand issue. We would encourage the committee to look at other examples across Australia where state governments have particularly taken the bull by its horns in terms of trying to stimulate more diversified economies. Tasmania is a stand-out, where they worked on their competitive tourism proposition. While some of the cities that we are talking about here are principally resource towns, most certainly there are others that have growing tourism propositions that have enormous potential. But I think if we just have a debate around why one particular class of airfares is, in perception terms, so high, we miss the fundamental problem. I take your point, Chair, that this is not an inquiry about Perth–London, but what we are trying to do with that service is stimulate domestic intra-WA tourism as a result of having a new hub established in Perth. I think it is some of those elements, where we are trying to build the demand equation, that are really important for a market like Broome.

The CHAIR: Before we take your cue and change the subject slightly, I just want to explore one final part, and it is in some ways a bit of a segue. One of the solutions to address market failure and introduce competition, and it is linked to overseas markets, is the concept of cabotage—that one way to address this is to allow international flights to land in domestic destinations, pick up domestic passengers and then move on, and that would introduce some form of competitive tension into a lot of these routes. Could you comment on Qantas’s position on cabotage?

Mr PARKER: Yes. We most certainly strongly disagree on cabotage. We think it is largely unprecedented globally. We think it has huge implications for the unwinding of Australia’s air travel market. We would immediately have to take steps to respond, which we believe would be harmful not only to our business, but, importantly, communities and, for example, the Western Australian economy. To give you some detail on that, we would be competing then with labour costs from

presumably South-East Asia. I think we are talking primarily about the concept of an Indonesian carrier. We would be dealing with safety standards that would come out of Indonesia. So, Australia would be outsourcing its entire regulatory safety regime to a third country for the first time.

Mr S.J. PRICE: Sorry, but these are international flights that already come here, so just because they might stop at Broome on the way to Perth, why does that do that to your safety regime?

Mr PARKER: It is because we have different regulation of international carriers versus domestic carriers, and Australian domiciled AOC operators have an extremely sophisticated—possibly the world's most sophisticated—safety regime. All of a sudden you would have new entrants who would be operating with a third country's criteria to operate a domestic service.

The CHAIR: What if there was a condition on landing in a domestic airport that they matched the safety and servicing criteria that are currently on foot? It would be part of their licence to operate.

Mr PARKER: They would never do it. No airline would do it.

The CHAIR: How do we know that?

Mr DAVID: There is nothing to stop them doing that. You can set up as a domestic airline. Tiger did it. You can set yourself up as a domestic airline and compete. That is the way to do it in this country.

The CHAIR: If what we are talking about is trying to increase scale and trying to increase load factors on flights, if you have a 60 per cent full international flight, you can touch down in Broome, pick up passengers and increase the load factor for the Broome to Perth leg to 80 per cent. If you have got, as part of the licensing conditions to do that, the requirement that they meet the relevant safety and servicing standards, what is the problem?

Mr DAVID: It is not a level playing field, quite simply.

Mr PARKER: It is a very significant problem. It is also because you would start to see cherrypicking, because, unlike Qantas, these airlines would not service smaller towns and communities; they would cherrypick the potentially more profitable routes to take them to a gateway city. This is the point we make about unwinding a network infrastructure. It is why, for example, federal Labor are so strongly on the record against cabotage, why the federal government looked at this and completely rejected cabotage and why other state governments have similarly rejected cabotage, as have many airports, because they know the consequences of this policy folly. To consider giving third country airlines the access rights to Australia domestically, when we as Australian carriers would never get such reciprocity in another country, we think has grave and serious consequences.

Mr DAVID: Outside of the European market and Australia–New Zealand, which operate from an aviation perspective as one market, when I searched last night—China and Albania have a relationship along these lines—I could not find another country that does this, so it would be unprecedented.

Mr D.T. REDMAN: Another airline that is open is Rex, which operates on a regulated route between Albany and Esperance. It has a policy in place whereby as they approach their flight day, they come down to a community fare and effectively finish up with a full plane. Of course, the risk that someone takes is that they do not get a flight, but that is a risk a lot of people are prepared to take. Of course, they have full planes. On the flights up north, in particular by your airline and others, there is a view that as you approach the day, which you mentioned today, the price goes up and of course they get on the plane and the plane is only half full. I would have thought it would be in your interests to have a bum on each of those seats in some way or another. What is the blocker for having a very similar policy whereby someone can get a cheaper fare closer to the day but of course takes the risk of not getting it?

Mr DAVID: Perhaps I can make a couple of comments, because maybe I have not been entirely clear when we were answering before. There are very small markets where the uniqueness of it means you end up in a situation in which only one carrier can operate—two cannot; the market is not big enough—and therefore it makes sense to get regulated markets. With these markets we are talking about, where you have got more than one carrier, if you were to regulate, what we think would happen is average fares for residents would go up, because the way you are advocating us to manage our inventory is rather than scale up through to last-minute bookings on the end of the day, we have, in effect, fixed fares. To be able to make the economics work, you will probably end up with higher average fares, and that is the issue.

We have also spoken to the other issue that we face in these mining towns like Kalgoorlie, Karratha, Paraburdoo, Port Hedland and Newman. They are unidirectional, so it does not matter how much you stimulate. Even with a fixed-fare concept, you are not going to fill those planes coming back. You cannot stimulate the market. Broome and Exmouth are different. Yes, there is a lot of mining traffic, which is why we have introduced the residential fares for the Broome market. But what we keep coming back to is the opportunity for Qantas to work with the WA government to increase the levels of travel. We would love to see 27 per cent of all travel into Broome is international traffic. Today it is eight per cent. Therein lies opportunity in markets like Exmouth and Broome. If there are tourism opportunities in the Pilbara that we do not understand today, again we are happy to work with you to expand other markets. Equally, we are also happy to work with you, where we can and where it makes sense, where there are economies of scale, to use our low-cost carrier Jetstar to promote. Jetstar last year sold 37 million tickets and 24 million of those tickets were sold for less than \$100. Again, we are happy to work with you to see whether, interstate or intrastate, there are opportunities to use that brand, but it will not work in all markets.

Mr D.T. REDMAN: This notion of one-way traffic is that the plane is chock-a-block going one way but empty going the other. I would have thought that if you are taking people up, they have to get back somehow. Is that a mismatch with the resource sector and their FIFO rosters, where you have to hook in to something in Perth? Have you made any endeavours to see if you cannot square that off in some way? I would have thought planes full both ways would make a bit of sense. I would have thought that would match your bottom line.

Mr DAVID: We would love to do that. Guy, do you want to explain FIFO traffic, the way it flows and why we cannot fill planes one way?

[11.30 am]

Mr WADDELL: You talked about the FIFO rosters and that is a part of the equation. We, over many years, have worked with our large customers about optimising rosters to better balance loads on aircraft, but there is only so far you can go when you are moving large populations or large groups of people in one direction and then back in the other. The reverse direction has to be paid for somehow. The forward-demand direction has to cover for the reverse-demand direction, and then the reverse demand, you just cannot stimulate the traffic because there just are not the populations that are interested in travelling in those directions.

Mr DAVID: Without risking sharing commercially sensitive data, we can show you what the flows look like—where Monday, Tuesday, Wednesday it is all flying in and then at the end of the week it is flying out. We are talking very small populations in these towns as well, so to stimulate the traffic to fill the planes coming back, we cannot do it.

Mr D.T. REDMAN: Put simplistically, I thought there would be a team of people moving up to take over from a team that is going to come out.

Mr DAVID: Unfortunately, they do not flow like that. As Guy said, it would work for us. It would be better for us because, as you are pointing out, planes full both ways is a win for us. It means we are getting the economies of scale both ways. And then you see in other markets what happens is fares continue to come down, but in these markets, the way the resource companies work with our rosters, we are taking them in at the start and bringing them out at the end.

Mr S.J. PRICE: Just on that, you said earlier in regards to the arrangements that you have with some of the resource companies that essentially it is the same as what you just recently announced for regional travel, so it is a spread discount depending on the type of fare that they book.

Mr DAVID: Yes.

Mr S.J. PRICE: Some of the suggestions previously from some of our trips around the state have been that the resource companies essentially purchase a block booking to sort of underpin a number of seats per flight. Is that accurate or not?

Mr WADDELL: In the vast majority of cases, that is not accurate. There are small numbers of blocks on some routes that apply, but most of the traffic is sold on a first-come-first-served basis, if you will. There are a small number of blocks.

Mr D.T. REDMAN: But you have an agreed, contractual arrangement with the companies as to how that works.

Mr WADDELL: How which works?

Mr D.T. REDMAN: So, as distinct from making a block booking, you have a contract with Chevron and/or —

Mr DAVID: Yes.

Mr D.T. REDMAN: —as to how the pricing structure works.

Mr WADDELL: Yes.

Mr DAVID: Well, we agree discounts. There are volume discounts as well. If they hit certain volumes, the discounts are given.

Mr D.T. REDMAN: And that is commercial-in-confidence to you? That is not something you would make available to the committee?

Mr DAVID: No, that is commercial-in-confidence because it is sensitive with competition, obviously, because we are competing with our competition for those contracts.

The CHAIR: We will provide you with information of the degree to which information disclosed to us can be held in confidence. We can potentially protect and respect that commercial-in-confidence. But hopefully you appreciate that one of the key things that we need to do as a committee is test a lot of the assertions you have made today around your approach to pricing and the degree to which regional Western Australians are getting a fair deal. Unfortunately, we do not have much more time available to us today, but I do note that we have asked whether Qantas would be prepared to share quite a bit more information with us about the approach that you take to costing and pricing, and we would certainly appreciate that very much. The clerks will provide you with more detailed information about how that information is held in confidence and the obligations that are incumbent upon this committee to preserve that.

So I think the way forward for us, perhaps, is to put you on notice that we would like to have a far more comprehensive briefing and detailed discussion with Qantas about the approach you take towards costing and pricing. We will invite you to join us again. If you accept that invitation, that would be fantastic. It really would assist us with our inquiry. I note in your opening comments in

your submission you did note that it provided the committee with an opportunity to address some of the key policy issues and misconceptions around pricing and review the cost drivers and route economics, and that is fundamentally what we are trying to get to the bottom of.

I thank you very much for your time today, gentlemen. I will proceed to close today's hearing. I 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 by 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. Thank you.

Hearing concluded at 11.34 am
