

ECONOMICS AND INDUSTRY STANDING COMMITTEE

Second Report — “Perceptions and Realities of Regional Airfare Prices in Western Australia” — Tabling

MS J.J. SHAW (Swan Hills) [12.20 pm]: I present for tabling the second report of the Economics and Industry Standing Committee entitled, “Perceptions and Realities of Regional Airfare Prices in Western Australia” and the submissions.

[See paper 1015.]

Ms J.J. SHAW: Few issues in regional Western Australia attract greater local interest or rouse community sentiment more than the cost of air travel. Air travel in the regions is not a luxury; rather, it is an essential service akin to buses and trains in the metropolitan area. It sustains communities, provides links to families and friends, facilitates economic activity and affects people’s perceptions about the liveability of regional centres. Access to reasonably priced air travel can be the point of difference between feeling a sense of remoteness or remaining connected; between deciding to build a life in a regional town or leaving because the sense of isolation is too great.

This inquiry was initiated because regional communities have repeatedly raised concerns about the price of regional airfares and have often been met with muted industry responses. Moreover, government policy has not adequately addressed community concerns, particularly following recent changes in the market. This report examines whether prices are in fact high; considers the impact prices have on regional communities; explores causal factors driving high prices; and suggests steps that industry and government can take to address community concerns and reduce airfares.

Airline industry pricing is notoriously complex and opaque. Unlike most things that Western Australians buy in their everyday lives, airfares for particular flights and routes can change by the day, if not the hour, and prices escalate rapidly—and perhaps inexplicably—closer to the travel date. The committee considered fares for regular public transport services on regulated routes when a monopoly is granted to a single operator with information disclosure obligations, and on unregulated routes when market forces theoretically place downward pressure on price and information disclosure is not required. We received considerable evidence suggesting that fares on unregulated routes are unreasonable. Successive witnesses from across the state used terms such as “price gouging”, “market failure” and “duopoly” and stated that routes lack competition. We also received academic evidence to suggest that fares are lower and less volatile on regulated routes. Unfortunately, the committee encountered general resistance from unregulated airlines to provide information that would have enabled us to draw conclusions about the reasonableness of fares on unregulated routes. Without clear information, it was difficult for us to conclude that airlines are genuinely setting fair prices, and without proactive community engagement to explain their position, it is impossible for industry operators to change community perceptions or allay community concerns.

The committee received very clear evidence about the impact of high airfares on regional communities. The inquiry attracted 122 submissions—a record number for a Legislative Assembly inquiry—demonstrating the extent of community concern across the state. We held a record number of hearings for a Legislative Assembly committee right across the state in Perth and six regional centres: Albany, Broome, Esperance, Kalgoorlie, Karratha and Kununurra. We chose to broadcast the Perth hearings, which is another unusual step for a committee, so that people in regional Western Australia could hear as much of our proceedings as possible. Given the level of public interest, and in another first for a Legislative Assembly committee, we held public forums in four regional centres—Broome, Kalgoorlie, Karratha and Kununurra—to provide community members with the opportunity to directly communicate their concerns, tell their stories and provide recommendations. Our engagement with regional communities across the state conveyed the widespread level of unhappiness in many townships, with high airfares affecting social amenity, government service delivery, the operation of local businesses and the development and sustainability of a vibrant tourism industry. People recounted stories of being unable to attend important legal or personal appointments, visit sick relatives, attend significant family events and, tragically, say final farewells to loved ones. People told us that their Perth-based families could not afford to visit them, and vice versa; that they could not visit their children at boarding school or regularly bring them home; that their adult children could not return home from university; and that they could not afford to go on holiday. All these factors can compound feelings of isolation and loneliness. Airfares are often a major factor when people decide to leave regional centres altogether.

Local business operators expressed frustration about the cost of air travel and its impact on their businesses. It affects recruitment and training costs, staff attraction and retention, and professional development. It also prevents them from meeting clients or seeking new business opportunities. Government services and not-for-profit organisations are similarly affected, with negative impacts on service delivery potentially placing people at risk in some instances. Tourism operators are disappointed about the lack of engagement from airlines on initiatives to expand local markets. They described the impact that airfares have on demand for Western Australian destinations

compared with overseas locations. The committee appreciated residents' candour and willingness to share their experiences.

Given time and budgetary constraints, we were disappointed that we were not able to visit more regional centres. However, we received submissions from across the state and held a range of videoconferences to hear from as many regional centres as possible. Although many stories were similar, the committee notes that there were marked differences between the volume and tone of evidence between regulated and unregulated routes. This report finds that community sentiment is more positive on regulated routes where airlines proactively engage with local communities about price and service operation.

We considered factors affecting prices, and undoubtedly Western Australia is an expensive place to do business. All airline operators noted the relatively high costs associated with operating in this state, and this is broadly accepted by the committee. The committee also notes that supply and demand dynamics and cost drivers vary significantly between routes. We identified three broad route types: resource and energy destinations; community destinations where the traffic is more like commuting; and hybrid routes, where there is an element of tourism, an element of resource and energy traffic and an element of local or commuter traffic. Despite differences between these route types, a number of overarching factors contribute to WA's high airfares. Firstly, RPT routes are thin and characterised by low passenger numbers and small population centres, which means fixed and operating costs are shared over a smaller base. On resource and energy routes, both general purchasing decisions by resource and energy operators and the recent structural adjustment in the sector as it moves from the construction to production phase have also had an impact on price. Moreover, charter services and the location of airstrips proximate to RPT airports affect RPT route pricing and overall service viability. The committee considers that market structure is an important factor that contributes to the price of airfares on unregulated routes. This report notes that the previous government adopted a light-handed approach to route regulation based on the belief that competition would impose a natural restraint on prices. Evidence before the Economics and Industry Standing Committee suggests, however, that market forces may not place downward pressure on airfares to some unregulated destinations. The committee considers that duopolies on routes may lead to parallel schedules and similar pricing.

Airport charges were a particularly contested factor on this inquiry. The committee finds that airport landing fees constitute a varying, but generally small component of the total costs of regional airfares. It also observed that regional airport operators were remarkably open and transparent about the calculation and level of landing fees. Some have actually proactively fixed or reduced charges. The committee did not receive evidence that airports are charging unreasonable fees.

It is legitimate and, in fact, necessary for airlines to make a profit. This principle was advanced repeatedly by witnesses to the inquiry. No business can be expected to operate at a loss. The committee also accepts that commercial confidentiality needs to be protected in a competitive environment. Noting the importance of air travel to regional communities, the committee considers that there are a range of steps that the airline industry could take to address community concerns and demonstrate that they are not extracting unreasonable profits, particularly from local residents forced to travel under emergency or other compassionate circumstances. Most obviously, airlines can reduce fares. The committee notes that airlines used to offer compassionate fares to assist community members attempting to travel at times of great distress. If airlines proactively reintroduced these fares, this would be wholly consistent with good corporate citizenship and would be likely to considerably assist in reducing community outrage.

This report considers several initiatives currently offered by airlines in the market. The committee observed, however, that discounts are frequently offered on the most expensive fare classes and may therefore still represent considerably more expensive fares than other fares offered into the market at different points in time. It particularly noted Qantas's offer of discounted fares for residents, which was announced during this inquiry. Although this is a welcome step, the committee is concerned about the community engagement undertaken when introducing the fare, its ability to provide a long-term, sustainable solution for regional communities, and whether these fares genuinely represent the best prices that could be offered to community members travelling under compassionate circumstances. The evidence to this inquiry overwhelmingly suggests that when operators proactively engage with communities to explain costs and service requirements, such as Regional Express Airlines' engagement on the regulated Esperance and Albany routes, community sentiment is far more positive. Voluntary initiatives to assist customers to understand airfare pricing dynamics would considerably reduce community outrage.

What can the state government do? The committee definitely prefers that industry takes voluntary steps to address community concern. However, when industry either cannot or will not proactively introduce measures, there is scope for the state government to act. Given altered market conditions and the recent change of government, the committee considers that the state aviation strategy is in urgent need of review. Significant changes have occurred to the Western Australian economy, particularly in the resources and energy sector, since the strategy was first released. Evidence also suggests that the light-handed approach outlined in the strategy and adopted by the previous government may not be delivering reasonable outcomes for regional Western Australia. There is also

considerable scope for greater interdepartmental collaboration on aviation policy, with this report also recommending that the Premier consider re-establishing an aviation ministerial council, previously instituted under the Gallop Labor government.

Beyond general policy recommendations, there are also a number of more direct interventions that the state government can take. There is a paucity of information available about intrastate aviation. This lack of information prevented the committee from forming a view on the reasonableness of airfare pricing. It also stopped it from recommending the re-regulation of specific routes in Western Australia. We are genuinely concerned that a similar constraint affects the Department of Transport. The Minister for Transport has a range of existing licensing powers available under the Transport Co-ordination Act 1966 and associated regulations that enable the minister to compel the production of information. The committee recommends that the minister use these powers on unregulated routes in conjunction with strict confidentiality protocols to protect commercially sensitive information. We consider that more information would considerably assist with policy development. Moreover, disclosure may in itself place downward pressure on prices. Sunlight is often the best form of disinfectant. A number of witnesses observed that the mere fact of disclosure places a natural restraint on gouging or unfair pricing. We further recommend that the Department of Transport use the information made available to it to prepare a biannual report to the minister on intrastate market dynamics and airfares. A requirement to provide greater information, as I mentioned earlier, on unregulated routes represents an intermediate step between the current light-handed policy approach and route re-regulation. It provides the state government with the ability to conduct its policy function more effectively, observe the operation of the intrastate aviation market, consider whether the market is operating to produce fair pricing outcomes on regional unregulated routes and determine whether more interventionist market steps are warranted.

Evidence to this inquiry suggests that market forces may not place sufficient downward pressure on airfares to some unregulated regional destinations. Decisions about route re-regulation in specific destinations must be based on the best available information, and this has perhaps not been provided to the committee. Given the complex policy environment and extensive economic analysis and community consultation required to determine appropriate forms of market intervention, the committee, based on the evidence to this inquiry, cannot recommend the re-regulation of particular routes. However, it is appropriate for government to consider whether any existing WA routes should be re-regulated. The committee has therefore also recommended that the Department of Transport undertake a separate program of work on this specific issue.

A range of other matters arose during this inquiry, including service quality, freight, market interactions, leveraging government purchasing power, and enhancing the availability of public information. As part of its review of the state aviation strategy, the committee has recommended that government consider the design of tender packages on regulated routes to bundle like destinations, attract market interest and deliver scale efficiencies. It also considered the opportunity for additional regional centres to be incorporated into a regulated coastal milk run, noting that there is currently no framework within which this type of initiative can be examined. The committee considers there may be considerable public benefit to communities on the milk run and interest from market operators.

Regional Western Australians are rightly concerned about the cost of intrastate air travel. Air services are vital to regional communities. Unfair pricing can have a devastating impact on individuals, families, businesses and entire townships. Airlines are rightly entitled to generate profit for the services they provide. Alongside this right, however, sits a responsibility to treat local communities fairly and compassionately. If disproportionately high or unreasonable returns are being extracted from vulnerable community members, this is manifestly unacceptable. The previous government assumed that competition would drive lower prices. However, the mere presence of two market participants on a route does not automatically guarantee a competitive environment, nor does it provide assurance that market forces are delivering price restraint. Based on the evidence presented to this inquiry, the committee was unable to find that market forces are placing sufficient pressure on unregulated route prices. The possibility of market failure or anti-competitive conduct is of significant concern. The state government must have access to information to enable it to address any market failures on an ongoing basis rather than at a fixed point in time. The committee would prefer that industry proactively provide information and engage with communities. But if industry will not act, government should. The committee suggested a graduated range of measures aimed at promoting fairer outcomes and lower fares for regional Western Australia.

I would like to take this opportunity to acknowledge the hard work and contribution of my fellow committee members: the members for Churchlands, Jandakot and Forrestfield, and particularly the member for Warren–Blackwood who is not able to be in the chamber today but who really provided some fantastic guidance and support to me in my new role as committee chair. His tours of the various regional townships we visited were renown. I would also like to thank the fantastic work of the committee secretariat that really pulled this committee inquiry together very well, given the number of submissions we received and the pressure it was under. Thank you to the secretariat for its amazing work on this inquiry. I commend the report to the house.

The ACTING SPEAKER (Mr I.C. Blayney): Member for North West Central, are you on the committee?

Mr V.A. CATANIA: I am not, but I am seeking leave to respond to the committee's report.

The ACTING SPEAKER: As I thought, member for North West Central. If someone on the committee wants to speak first, they are entitled to speak first. I give the call to the member for Forrestfield.

MR S.J. PRICE (Forrestfield) [12.40 pm]: I, too, rise to contribute briefly to the tabling of the Economics and Industry Standing Committee second report titled "Perceptions and Realities of Regional Airfare Prices in WA". This inquiry has been quite difficult, considering the issues raised with the committee and the expectation that a lot of the community has had regarding the outcomes associated with this report. The report examines whether prices are high, considers the impact that these prices have on regional communities and explores causal factors that drive up the price. As we go through the report, we will see that 48 findings have been made and on top of that 13 recommendations have been made to address some of the concerns that have been raised with us.

On behalf of everyone who was part of this inquiry, I do not think that we fully appreciated or comprehended the impact that higher regional airfares have on people who live in the regional areas of WA. As the committee chair said, we held hearings in six regional centres around WA, including Albany, Broome, Esperance, Kalgoorlie, Karratha and Kununurra. On top of that, we held community hearings in four of those places—Broome, Kalgoorlie, Esperance and Kununurra. The public sentiment expressed at those hearings was quite overwhelming. People living in the regions were in tears as they explained the situations and circumstances to which they were exposed when they have had to fly down to Perth for a family event, a funeral or to visit a sick relative, but have been unable to afford to do so because of the cost of the airfares. It drives home the significance of this issue within our regional centres. It goes both ways.

We live in the city of Perth and we think regional airfares do not really mean that much or impact on people that much, but it has a reverse impact on people in Perth who want to go to the regions to visit their families. Grandparents want to see their grandkids. Children come to Perth for schooling and parents may want to fly them home during the break. This impacts people's lives in a number of different areas that we did not really fully appreciate. It was the firsthand lived experiences of the residents that drove home the significance of this to the committee. I thank everyone who took part in those community hearings. They were very well attended at the four centres and the information that was provided was factual and very effective. On top of that, as the chair previously mentioned, 120 submissions were made to this inquiry and we held a large number of hearings in all the regional towns that we visited, plus we did a number through video conference and held a significant number here in the city. The majority of people provided information in an extremely open and honest way. Some of the airlines were very forthcoming with information and some of them were not.

Through the inquiry, we gathered that a significant number of different aspects and dynamics impact on the cost of regional airfares. The expectation for us to deliver a solution was quite high and, to be honest, unrealistic. We have put forward a range of measures to help identify and allow people to understand why regional airfares are what they are within WA; they vary significantly. A lot of people make the mistake of comparing a flight to Broome, for example, with a flight to Bali. Different dynamics come into play with the pricing mechanisms for those airline tickets and we have to be careful to ensure that we compare apples with apples and not apples with oranges. That ease of comparison and the oversupply of cheap airfares internationally out of Perth really highlights the difference between regional airfares and what we can access in the city. The report has taken into consideration a lot of the information and concerns that have been raised throughout the regions within WA and we have tried to provide key recommendations that will highlight and provide more information for the regulators to make decisions about how they manage air routes into the future.

We have a couple of regulated air routes in WA. The Albany and Esperance example is a perfect demonstration of regulation working to the benefit of the local residents. That was highlighted by the fact that when we offered community consultation meetings in Albany and Esperance, they were not taken up. There were only positive things to be said about the relationship that those communities now have with Regional Express Airlines, the airline that delivers air services to those regions, compared with the previous providers. During the inquiry we noticed that significant and instrumental outcome. It also highlighted that in the areas where there is not a good relationship between the local community and the providers, it is difficult to maximise the opportunity for lower airfares.

The commercial airlines also have a significant role to play in this. The government has a role to play, but we are all concerned and hesitant about government intervention in private enterprise. A balance needs to be struck. The airlines have a social responsibility for the way that they interact and provide a service to our communities in Western Australia, and I urge them to get serious about that. During the inquiry, there was talk about Qantas introducing a community fare, so to speak. The perception was that it was a kneejerk reaction to the inquiry. It needs to do more to engage with the communities and it needs to do more to ensure affordable airfares for regional people.

Both Qantas and Virgin need to do more to provide discounted airfares for compassionate reasons to residents. People having to pay \$1 000 each way to fly to a funeral of a family member is unacceptable. There should not be such a burden on a family to do that. We hear examples of families having to drive down from Karratha because the family has five or six members and they cannot afford to fly everyone to attend the family function or gathering.

I thank the other members of the committee, the chair, the member for Swan Hills; deputy chair, the member for Churchlands; the member for Jandakot and the member for Warren–Blackwood.

A significant amount of work has gone into this inquiry, and I think the community will appreciate that we have taken its concerns seriously and produced a report that provides a way forward for addressing some of those concerns.

I will finish by thanking our principal research officer, Dr David Worth, and research officer Lachlan Gregory for all their work. Without their constant support, drive and encouragement keeping us on track throughout this whole process, it may have taken a lot longer than it did. Thank you.

MR V.A. CATANIA (North West Central) [12.49 pm] — by leave: I want to congratulate the government on starting a process of inquiry into one of the biggest problems we have in regional Western Australia.

Debate interrupted, pursuant to standing orders.

[Continued on page 6443.]