

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 1 NOVEMBER 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 11.10 am**Mr CLAUDE SCIVOLO****Retired Corporate Travel Manager, 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: Sean L'Estrange, Deputy Chairman; Yaz Mubarakai, member for Jandakot, Terry Redman, member for Warren–Blackwood; and Stephen Price, member for Forreestfield. I advise that the proceedings of the committee's hearing will be broadcast live within Parliament House and via the internet. This broadcast may include documentation provided by you to assist the committee in its investigations. It is important that you understand that any deliberate misleading of this committee may be regarded as contempt of Parliament. Your evidence is protected by parliamentary privilege. However, this privilege does not extend to anything you may say outside of today's proceedings. Could you please introduce yourself for the record?

Mr SCIVOLO: My name is Claude Scivolo. My background is 36 years involvement in corporate and retail travel, so travel and tourism has been the majority of my working life. In the past 12 years, I have been lecturing at Central Institute of Technology, now North Metropolitan TAFE, in travel and tourism.

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

Mr SCIVOLO: No.

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

Mr SCIVOLO: Yes. My understanding is that I am here to provide you with some background on the workings of the corporate travel sector in relation to the large mining companies and how they go about contracting discounts et cetera. I suppose being recently retired and out of the industry I can speak openly about this; whereas, people who are actually working in the corporate sector would probably find it difficult because they have got agreements to abide by. I can briefly go through my notes here. I do apologise I did not bring anything to hand out.

The CHAIR: That is okay, we are happy to have you step us through.

Mr SCIVOLO: I said to my wife, "Had I been at TAFE, I would have provided handouts for everybody." The large companies, as you have probably picked up already, do their own contracting direct with the airlines. You have Inpex, Woodside, Chevron et cetera. They have very well resourced logistics departments and very capable procurement negotiators. I have come across this during work with the likes of Woodside, which was one of our major clients for a period of time after Ansett's demise. Their projects are meticulous in the planning. They will know exactly the number of people due to go up on any particular day, so they can plan well out the number of movements that they are going to have per project or per expansion project or whatever it might be. The logistics team look at that and they then approach the airlines that are operating on those sectors. They actually approach other airlines who they feel have the capability of carrying the passengers vis-a-vis doing charters. With the likes of Qantas and Virgin, they would go direct to the airline. At this stage, we, as an agent, do not even come into it; they go direct to the airline and say, "Over a period of the next five or

seven or eight years, we've got X number of movements Perth–Karratha, Perth–Port Hedland, Perth–whatever it might be. X number per day or per flight. If you want the contract, what are you prepared to offer?" The numbers we are talking about can be 50 000-plus movements per annum. When we acquired Woodside, we were talking somewhere around about 25 000 movements—I will double check on that one. Yes, around about 25 000 movements per annum.

Mr D.T. REDMAN: That is into one port, into Karratha?

Mr SCIVOLO: That is into one port, into Karratha. That is their people going up on the morning flight, getting the chopper out to the rig. The guys from the rig have come in earlier, they get on the flight and come back. So those seats are accounted for.

The CHAIR: There seems to be a problem in the Pilbara that people fly up there and never come home. We have been told repeatedly that there is this black hole into which people disappear; that it is very unidirectional travel. We have talked about it amongst ourselves, but I am fascinated to hear your view on whether it truly is unidirectional, that these people go into this black hole called Karratha and never come back.

Mr SCIVOLO: It is not a black hole. They have their shifts worked out and they have 30 or 40 people going up on the morning flight. They will get up there and get the chopper out to the rig. The other guys come back on the chopper. They will either get the flight home or cool their heels at the airport around Karratha and then get the evening flight home—the evening flight vice versa. More so on the morning flights when you have the bulk of the people going up and they do changeover. There is no black hole there at all.

Mr S.K. L'ESTRANGE: The empty aircraft do not go home?

Mr SCIVOLO: No, very few. They may have a lighter load coming home, but they certainly would not send a 120-seat aircraft up to Karratha and then bring it back empty. In my experience that has never happened.

Mr S.J. PRICE: What duration do they lock in these contracts for?

Mr SCIVOLO: Anything up to, say, five years. Normally, they look at three as a starting point with reviews. I was involved not with mining but with a contract that does a lot with mining both here in the north west and also over in Queensland in looking at their tender and writing the tender document that they sent out to the airlines and also to hotels, car providers et cetera, and at a minimum they were looking at three years.

Mr D.T. REDMAN: What is the nature of the contract? Do they do straight out just a price-volume contract or do they do an annual commitment and then settle up an over-under process?

Mr SCIVOLO: They do a percentage commitment. There is probably no way one airline is going to carry 100 per cent, so they will always contract the other airline for a smaller percentage, maybe for a slightly different fare level. Normally, the other airline through information that they get is able to work out how much everybody else is offering, so they will say, "Okay, fine, we'll do that." They build up goodwill and hopefully at the next —

Mr D.T. REDMAN: Is that an insurance issue for them?

Mr SCIVOLO: Yes. You build up the goodwill and then you can invite it back—there are only two airlines, we have gone back—and have another shot at tendering for the bulk of the business rather than the smaller part.

Mr D.T. REDMAN: What is your assessment of the impact of tenders like that, where you take a block booking on flights from a sector that has got a very commercial driver, on the offering of the remaining seats that are left on the plane in order to meet the yields?

The CHAIR: And underwriting the service.

Mr SCIVOLO: It depends. I am not privy to how they work out their loads and their profit margins and break-even points and whatever, but it cannot be very much different than, "Okay, the aircraft is costing us X and we are carrying Y. At these particular fares, are we covering costs? If we are covering costs, why do we have to give the punter a fair go?" The ordinary punter just pays whatever it is, and that is just pure profit.

Mr D.T. REDMAN: There are two trains of thought. There are routes in WA that if you did not have the resource traffic, you probably would not have an airline. Therefore, it generally supports a domestic service. And there are others where in your bigger centres, where a big proportion come from the resource sector, it is actually not supporting the local person who wants a cheaper fare because they sold these other more commercial fares at a high price. They have actually sold a long-term contracted fare, which is going to be quite competitive.

Mr SCIVOLO: There are two things there. One is the price and the available rebate that these companies take advantage of. You are looking at anything from 30 up to 55 per cent off full economy. Where the ordinary punter would go and have a look online and see it is going to cost \$1 073 to do whatever they want to do, the mining company is paying anything between 30 and 55 per cent less than that, depending on who it is, how hard they have negotiated and what the terms of the contract are.

Mr D.T. REDMAN: Yes.

[11.20 am]

Mr S.K. L'ESTRANGE: And that would be based on a fixed number of bodies on seats, would it?

Mr SCIVOLO: Over the period of the contract. They would give them an approximation of X number using it per day.

Mr S.K. L'ESTRANGE: Yes.

Mr D.T. REDMAN: So you have a committee here that has been called to have an inquiry on the basis of price issues and what residents in those communities describe as market failure, for a whole range of reasons, which I am sure you have been following. Do you have any advice to us as to what we might consider in recommendations as it applies to the corporate link? Yes, there is the commercial game in play with the airlines but there is also an essential public service that is being offered here.

Mr SCIVOLO: Going back to when I first started in the industry, which is going back to 1969 with TAA and Ansett, and MMA locally, we had first and economy, and that was it. Then they brought in business class and then they started to look in the realms of advance-purchase fares. But what they did also have, and I have read some of the emails that people from Kununurra and those places have sent in, was student fares where you are moving a student at the end of the term from a boarding school here, back home and then back again. There was a substantial discount on those particular fares.

Mr S.K. L'ESTRANGE: Who arranged that discount?

Mr SCIVOLO: The airlines actually had those fares. They had those published fares.

Mr D.T. REDMAN: They just self-delivered it; it was their initiative.

Mr SCIVOLO: That was their initiative, along with advance-purchase fares where you had to buy 30 days in advance and you had to nominate your forward and your return. They freed that up. Now it is a lot easier to go and come back within a day or two. You do not have to stay for seven days.

They also had what I will refer to as bereavement-type fares or urgent-travel fares, which were on application to the airline. The traveller then had to provide evidence of the reason for travel. When you have people up in Kununurra who needed to come down to Perth for urgent medical treatment or for medical treatment, they would produce all the necessary doctor's documentation and the fare was then organised directly with the airline. As to what percentages they were off full economy, I do not know, but they were sort of two of the fares that were in play all those years ago.

The CHAIR: When did they start to wind back on offering those community minded-type fares—those compassionate fares?

Mr SCIVOLO: You would have to be talking probably 25 years ago.

The CHAIR: Really?

Mr SCIVOLO: Yes, when they started to loosen up the market and say, "Okay, fine. You can buy a one-way fare at short notice over to Sydney or Melbourne" and the same sort of thing applied here internally with WA.

Mr S.K. L'ESTRANGE: Twenty-five years ago, as a percentage of a person's weekly household income, would the airfares have been high?

Mr SCIVOLO: It is probably cheaper nowadays to travel than it was back then.

Mr S.K. L'ESTRANGE: Even with the expensive airfares today, it is still cheaper than what it was 25 years ago with a discount?

Mr SCIVOLO: Yes.

The CHAIR: In your experience, is there any way that if you have an emergency that you can pick up the phone? Have you had any experience where the major airlines have been responsive and compassionate?

Mr SCIVOLO: Not of late. The airlines do not enter into that sort of discussion anymore. It is pretty much cut and dried; this is the fare, unless you know someone at the local office and they can do something about backdating a ticket and writing a lower airfare. The airlines can do those sorts of things at their discretion. The same sort of thing happens if you are travelling somewhere on a restricted fare and you need to change it, then you can approach them and tell them what the problem is and if they have seats available, they will just endorse the ticket and away you go.

The CHAIR: Do you have any visibility of the mechanics of how the GDS and ticket allocations work and how travel agents may be able to —

Mr SCIVOLO: No. What we used to see as an agent is when you go in and you do an availability, you will see all the classes. You will go from J, which is business, to B, which is a discounted business class, which is restricted in the number of tickets, through to Y, H, K and L, and then to O, P and Q et cetera. Each one of those has a certain amount of revenue attached to it by the airline. What we see is the number of seats available when we go into the computerised res system that we use. Beyond that, that is it. When they contract with the mining companies, they contract on a Y—full economy basis. It is an unrestricted ticket, changes are no problems and there are no additional fares to be paid. The ticket is issued at the full economy fare for that sector and it is coded. Those codes are linked back to the agent's CRS code, which is the computerised reservation system that they use. It is linked back to their three or four-letter digit number there and it is linked back to their IATA number, which is their—are you aware of the International Air Transport Association? Yes. It is linked back to their IATA number so that when they punch out the ticket, it goes through and there is a code attached to it in the form of payment section. It might say \$860 on the ticket and it gets billed through the central billing system at \$400.

The CHAIR: Right.

Mr D.T. REDMAN: Your background has been in, and you just described it at the start, some corporate traffic and how they manage their contracts. Government is a pretty big player.

Mr SCIVOLO: Government does exactly the same.

Mr D.T. REDMAN: So they go in and have a profile of use?

Mr SCIVOLO: Yes.

Mr D.T. REDMAN: And then they go to airlines and seek to do that?

Mr SCIVOLO: Yes. We were asked to come in for an information session for the state government. This is quite some years back. We came into that information session. The state government appoints a contractor who has got all the numbers on the number of dollars you spend on which airlines, which sectors, which hotels you use, where you hire cars and all of those things, and they then presented us with that information. We got that information back and then we presented a tender for the services. Federal government does exactly the same thing, only to a higher level because they have a lot more international travel involved there.

Mr D.T. REDMAN: With your experience, do you think that there are tools in that tender process, given government has some commercial weight in that argument, to extend it to having influence on private—domestic travel?

Mr SCIVOLO: I was listening to the guys from the Department of Transport and when you tender for the sector you would need to specifically state that the tender must include specific airfares, or specific conditions attached to airfares such as students, bereavement, urgent or medical travel. You can break it down into as many little bits as you want and that then becomes part of the tender process. That way you influence them to say, “We need to be innovative in the way we address this.”

Mr D.T. REDMAN: So the nature of tender for government must be quite different from one for Woodside. Woodside knows the profile of how many people are going up or back for five years just about.

Mr SCIVOLO: In the tender for government, we look at it historically, and they provide you with three years of historic information—X number of sectors here, there and everywhere. You work out how many sectors, where they are going to and what the revenue would be on those sectors, and you price it accordingly. The way the corporate travel agent nowadays prices things is on a transaction-fee basis. So for every ticket that is issued, you get it at the bare bones cost, and we will then charge you a \$10 fee or a \$12 fee, whatever it might be. If you want a hotel as well, an additional \$5 fee is attached to that. We make \$17 out of the one transaction.

The CHAIR: Presumably, the emergence of online booking services has taken a massive chunk out of travel agents’ involvement in this industry.

Mr SCIVOLO: It has to a degree, yes.

[11.30 am]

The CHAIR: What sort of an impact do you think that has had? Is there any impact at all on this issue?

Mr SCIVOLO: With regard to agents?

The CHAIR: To regional airfares and the costs, the pricing dynamics and demand.

Mr SCIVOLO: No, I think the airlines here in WA have retreated a little bit with regard to—whether they do not quite understand our tourism market, for a start, where they offer you a week in Karratha for \$199 each way, which is a fantastic fare; you cannot get Melbourne for \$199 each way these days. Why would I go to Karratha, unless I have family there? Hit me with something that is worthwhile, to Kununurra, and they do occasionally come up with those. But I do not know whether the local offices of the airlines have sufficient pull with head office or whether they just pluck these things out of the air, like go to Derby for \$209. I would prefer Kalgoorlie!

Mr S.K. L'ESTRANGE: So what you are saying is that you do not see any strategy attributed to some of these discounted fares?

Mr SCIVOLO: I do not see the reasoning behind the decisions to come up with those particular airfares. Whether the airlines are being slack or whatever, I do not quite understand it. Going back to influencing the fares, my wife and I spent a few days in Tasmania earlier in the year. One of the things we noticed going across was that the *Spirit of Tasmania* had residents' fares, which are a lot cheaper than the ordinary person would normally pay. You may need to look at those sorts of things.

Mr S.K. L'ESTRANGE: Do you know who subsidises those fares?

Mr D.T. REDMAN: It is the Western Australian GST system, isn't it?

Mr SCIVOLO: They are doing marvellous things with our GST in Tasmania and South Australia!

The Department of Transport guys are very knowledgeable, but I think that sometimes they need to get out there and have a look, maybe reintroduce themselves to the ordinary person and find out what the story is and what is going on, and do not think within that contract period—think outside the box. They can vary the contracts, as the gentleman was saying, without any reference mid-term; okay, that is great. We want you to look at this particular fare as a variance to the contract.

Mr S.K. L'ESTRANGE: I know we have asked questions on the GDS, but I just want to go back to it. I am still trying to understand whether it is an automated set of algorithms that adjusts prices based on when people are purchasing or whether it is actually back office human controlled.

Mr SCIVOLO: My understanding of it from the airline perspective is that the back office controls will allocate the number of seats that say M-class on a particular flight. They allocate six and once those six are gone, that is it. It will show zero.

Mr S.K. L'ESTRANGE: It is not an automated system?

Mr SCIVOLO: To my understanding, no, it is not an automated system. There is a lot of back office adjustment to that, or there was 12 years ago before I left the industry. They would work out in advance how many people they are carrying; how many seats they can afford to put on sale, discount; and then they will shuffle them around the different classes to get different layers of revenue.

Mr S.K. L'ESTRANGE: So it is based on their own market research?

Mr SCIVOLO: Yes, and the flight. If the flight is empty, you will find that they might come up with something that all of a sudden gets some interest happening and people will then start to book.

The CHAIR: But that was 12 years ago, I just want to clarify.

Mr SCIVOLO: That was 12 years ago but the GDS system—I have checked with a few people—and the computerised reservation systems have had no change in the way they operate.

Mr S.K. L'ESTRANGE: Even with them being computerised, they are still being driven by people?

The CHAIR: There is still a back office involvement in there. They do not leave anything to chance.

Mr S.K. L'ESTRANGE: What we are finding is that if a plane was, say, half empty on the day of travel, some of them were still putting out prices that were very, very high, instead of trying to create lower prices to encourage people to travel.

Mr SCIVOLO: On the day of travel you might get one or two bookings and that would be it. They always look several weeks out from departure and they have a look at the flights and they see how it is going, and then they adjust the numbers.

Mr S.K. L'ESTRANGE: Some of this GDS-style of allocation with some of the other operators who allow you to book accommodation or whatever, we have heard that some of the algorithms are set up so that they know you are logging on and interested and the price will go up automatically each time. Is anything like that linked to airfares that you know of?

Mr SCIVOLO: I keep getting emails from Booking.com telling me that there is accommodation in Amiens in France, which is what we are looking at for next year. Booking.com has that sort of thing available in there. I would say that for 99 per cent, no; the GDSs used by the airlines that feed into the computerised res systems of the agents do not have that in there. They will not look at it as, "This is the fifty-fourth Perth–Melbourne or Perth–Karratha input we have had today so maybe we should come up with something." They look at their loadings.

The CHAIR: Do you have a sense of whether the pricing approach is cost plus a certain margin, or what the market will bear? There seems to be slightly different philosophical approaches to pricing on different styles of routes. If there is a difference, is that driven at all by the contracting observations that you made around block bookings and that sort of thing?

Mr SCIVOLO: There could well be, but not that I am aware of. I do not have any insight into that part of how the airlines think and how they operate.

The CHAIR: Nobody does!

Mr SCIVOLO: No, it is a bit of a crystal ball thing sometimes when you look at it.

Mr D.T. REDMAN: Do you think airlines are genuinely motivated to try to build the traffic; that they are not gouging and taking short-term gains?

Mr SCIVOLO: If you are running an 80-seat aircraft and you have 45 or 50 of those seats spoken for, do you need to try? That is my take on it. Do you really need to just leave the fares as they are and see how many complaints you get? If you get sufficient complaints, then maybe something will be done about it.

Mr S.K. L'ESTRANGE: What about if you go through an agent? Do they get to see what you see on the screen?

Mr SCIVOLO: They see exactly what you see. The only difference is that if you are going through your own PC, you would see "available" and "not available". What the agent would see is the flight numbers for those days, the classes and the availability next to those classes, and it shows seven seats at any one time. I used to entertain myself to see how many seats there actually were by booking seven and booking another seven. That would be at least 14, and it knocks you back for the third seven. You have between 14 and 17 seats. That was just a little ploy we used to work it out if you had a number that you were moving. The agent does see it slightly different, but with the majority of domestic travel these days, which is point to point, no accommodation or any add-ons, people tend to do it themselves online.

The CHAIR: In terms of your comments before about seeing the bigger picture, I guess your observation was made in the context of the Department of Transport. Perhaps it is not its function necessarily to do that more joined-up thinking; it could be more about the department of tourism.

I do not know to what degree you have been following this committee's evidence, but the Tourism Council WA put to us that there is a real opportunity for packaging and airlines and destinations and accommodation providers working together. Do you have any views on that?

[11.40 am]

Mr SCIVOLO: There is. The Western Australian market is very immature when it comes to that. We need to take a leaf out of the Queensland market and the way that they have packaged for in-bound tourists from Japan over the years. We also need to look at the way Tasmania in the past used to market themselves with packages. My take on the tourism industry here in Western Australia is that there is a fear of employing people to help you. There is also a very high bottom line over a short period of time that they look at the profits that they need to make. They will allow unsold hotel rooms to go empty rather than change the way they operate. I speak from experience on that, because on a number of occasions we have tried to go away, we have only had one night over a weekend that we could get away. We were turned away from a number of places that I phoned because their policy on weekends is a minimum of two nights. That really gripes me. It is short-sighted, because when you say to them, "It's Friday afternoon at 5.00 pm, you've got rooms available, the likelihood of you filling those rooms is very, very slim, and you're not prepared to change your policy and take one night's accommodation at whatever rate you wanted, you'll turn people away because you want two nights."

The CHAIR: But that seems to be the position the airlines often adopt to their seats as well.

Mr SCIVOLO: This is why I say the market here is very immature. You need to move with demand and we do not move with demand. We do tend to price ourselves out of the range of the normal person. I did read most of the one from the Tourism Council and they were saying there is a lot of people, the grey nomads travelling around with caravans—okay, I am grey and I am retired —

The CHAIR: Nomadic!

Mr SCIVOLO: And I am going to soon be nomadic.

Mr S.K. L'ESTRANGE: Or they will get you a caravan!

Mr SCIVOLO: We're working on it!

The cost that I have seen attached to some of this sightseeing up in our north west has ruled me out already. I am a self-funded retiree; I am not a pensioner. Can you imagine those people going around on a pension? They are going to decide whether, "Do we eat for the next week or do we go and do that two-hour cruise?" because that is the decision. The market is pricing itself for international tourists who have got a big, fat wallet. The local people are going to suffer and they are just going to go into town and not really do the sightseeing that they should be doing of the sights that are on our doorstep.

Mr S.K. L'ESTRANGE: Or they will choose other options.

Mr SCIVOLO: They will choose other options. You will drive past the Willie Creek pearl farm instead of going in.

The CHAIR: Of the notes you have prepared, is there anything you feel that we should know; any other recommendations you would like to make?

Mr SCIVOLO: No. You are talking about companies that spend \$40 million or \$50 million a year on point-to-point air travel. They are obviously going to get looked after before the normal person. What you have got to do is change the airlines' contract to include certain fares so that people can actually get down from places like Kununurra or —

The CHAIR: Do you mean licence as opposed to contract?

Mr SCIVOLO: Change their licence conditions to say, “You will introduce these fares. If you’re not interested in introducing these fares, we’re not interested in having you here; we’ll look elsewhere.” It needs to be driven—I do not know who is the driver in that.

The CHAIR: We are trying to work it out. I will proceed to close today’s hearing.

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

Hearing concluded at 11.44 am
