

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT KUNUNURRA
MONDAY, 21 AUGUST 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 8.55 am**Mr JEFF GOODING****Chief Executive Officer, Kimberley Development Commission, 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 right, Deputy Chair Sean L'Estrange, member for Churchlands; 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 would like to thank you for your submission to the inquiry. Before we begin with our questions, do you have any questions about your attendance today?

Mr GOODING: Not about my attendance, no.

The CHAIR: Do you wish to make a short opening statement about your submission?

Mr GOODING: Yes, I do. Good morning, panel members. My name is Jeff Gooding from the Kimberley Development Commission. I am a long-term resident of the Kimberley and the inaugural CEO of the development commission, which was established in 1993. It is a small statutory authority, with seven staff located in offices in Kununurra, Broome and Derby. It is probably important to note that we have no regulatory role in relation to air services. We have a broad economic and social charter that is developed in our enabling legislation, which puts us in the space of being able to make commentary rather than to be precise in regulation. We have contributed to a statewide submission that has been done through the Department of Primary Industries and Regional Development. Since then I have looked more closely at your terms of reference, specifically about the Kimberley, and we would like to make an additional supplementary submission to that very general overarching statewide submission. I would like to speak to a couple of the key points and we will leave the supplementary submission with you as I go.

Our supplementary information drills into the experience of the development commission as a small statutory authority and what airfares have meant to us in the region and draw on data over the course of the last four years that we have pulled together. We have tried to put together a bit of an East Kimberley case study in relation to what the impacts on local residents might be. We have drilled into the segmentation of the air service market. Segmentation is an important part of all that I am probably going to say to the committee today, and I think it is an important element that we have to look at. We have had a brief look at the impact on the mining and business users. We have tried to drill into the specifics of the leisure market. You heard earlier from the shire about some of those aspects.

We have drawn together the fares that are available and tried to look at fare sensitivity, although that is a much more technical piece of work that has not been done in detail. We have tried to do that at a desktop level. We have looked at the airport charges and regional facilities that are available. Again, you have heard from someone on the shire on that. Our responsibilities go across

the region, so it is not only this shire; it is the Shire of Broome, Halls Creek and Derby–West Kimberley. We have looked at the competitive environment in the Kimberley, making some suggestions about growing the pie as opposed to simply cutting the cake differently. We have identified the Kimberley regulated routes, looked at the Broome and Kununurra usage trends, seasonality and, finally, we are concluding with some actions that we think might make a difference.

The CHAIR: It sounds great.

Mr GOODING: I can go through all those details or I have tried to draw out the top five or six points that actually summarise where we are coming from as a small state agency. Our key messages are that regional air travel is a critical component of the socioeconomic environment in regional Western Australia. I think we would all agree on that. Business and residents have a high level of expectation that they can afford regular use—that there is an appropriate service that is going to meet their personal and economic needs. Air travel costs in the Kimberley are high relative to other areas in the nation. I do not simply make that as an assertion. We look to the State Aviation Strategy that has done the benchmarking around the nation, and the costs are high in the Kimberley. The pressures that influence the aviation market in the region are amplified in the Kimberley. We are demonstrably distant from all other ports, particularly the capital cities, and it is largely the capital cities that generate traffic. The region is thinly populated. It is subject to high levels of seasonal demand and it is a high cost operating environment for anybody that is providing services here.

Aviation infrastructure and related service delivery is a complex dynamic. I do not want to focus on the complexity so much as the fact that we need to recognise that complexity and there are a range of different factors at work. It is an economic system. It operates at a scale within market dynamics that are experiencing significant adjustment. Largely, though not exclusively because of the changes in the resource sector, we need to recognise that air services, even though the Kimberley may not be as dominated by resource sector air service use as the Pilbara, for instance, are a statewide system. That goes to availability of aircraft and it probably goes to pricing as well.

We recognise that there is no silver bullet and that there is some pretty key preparatory work that has not been done in this state that needs to be done and our recommendations for action would go to trying to identify what that work actually is. We think that there are external factors to the Kimberley that impact significantly, and internal factors. Externally, airlines make their business decisions on the basis of yield and risk. Airlines operate primarily on a national and international stage. They do that because that is where yield and risk is most predictable.

The prioritisation of regional air services and therefore whether we get the hardware or whether we get the service involve business decisions that are usually not made anywhere near this region. They are made on the east coast and they are made in the boardrooms of the large airlines. The relationship with the airlines and regional providers is the important thing that people want to preserve. So there is a reluctance to be overly critical of providers because we do not want to jeopardise the service that we do have.

As a result, regional air services to some of the thinnest routes and the most remote areas have a priority that is lower than those in the eastern states, as we know. This results in decisions that impact aircraft type, aircraft availability, flight frequency and sometimes flight times. Generally, the state government—you would have heard this through the evidence that the Department of Transport provided—employs a light touch in relation to regulation. It would be our submission that we would support that but largely government is probably not good at high levels of regulation in the commercial environment.

The final external factor that I would want to make is that airfare pricing policies and the contributing factors to setting airfares are not well understood in the public domain. Many involve

a range of opaque factors that mitigate against a clear understanding. I am almost finished my overview. I will just drill into the internal factors in the Kimberley that potentially are impacting. Each route and each sector operates as a system with a range of different market segments and, although those market segments operate together, have different characteristics. The different segments—you can group these however you like—are largely the resource company and project-related travel, which is a highly inelastic group of travellers—inelastic to demand. Travel for servicing businesses, so industrial use of air services, is again inelastic. Most of those travellers pay the price, whatever the price is. Government officer travel—that is significant in the Kimberley—is again relatively inelastic. Health use—you heard earlier about PATS—is again virtually inelastic. In education, with kids travelling away to school, there is limited elasticity there. It is not until you get to community and residential travel that you have a highly elastic group of users and also leisure tourism. Thin routes with segmentation patterns like that are going to be challenging to service at an affordable price, whatever “affordable” actually is going to be.

The final point: leisure tourism is not the biggest consumer of aviation services in the region. We think it has high growth potential. We would be supportive of all that the shire has said preceding us and also all the work that the East Kimberley Marketing Group has done. We think there is high growth potential. That growth potential is limited by access and cost. There is a current perceptions study done by TNS in Broome. I am sure that has already been provided to you. If not, I am happy to table it.

The CHAIR: That would be great.

Mr GOODING: It is about the perceptions of users in the leisure sector. It mirrors some work that has been done in the East Kimberley. It is in support of the East Kimberley Marketing Group’s proposition to bring in a Melbourne service. It is a perceptual work about the identity of the brand. In all cases, it is showing that we need to be much more heavily marketing as a lead-in to be able to sustain better services.

I understand that you are hearing from the East Kimberley Marketing Group at some point. It certainly made a submission. I understand you are also hearing from the Broome tourism group. We would defer to both of those groups. We worked closely with them and defer to both of them in terms of the detail of their submissions. In fact, we funded part of the background work for both of them.

Expanding the access options to the Kimberley is likely to have a positive impact on scale. It is scale and competitiveness, both at a market level and an operational level, that underpins more cost-effective airfares in our view.

The CHAIR: Thank you, Mr Gooding. That is a very helpful overview of the content of your supplementary submission and, certainly for me, triggered a whole series of questions. We did speak with both the Department of Transport and the Department of Primary Industries and Regional Development. They were our first two hearings. I want to test some of your comments on light touch regulation. That was put to us by Primary Industries and Regional Development and Transport about the differences between a light-handed versus a more interventionist approach to regulation. We have also had some evidence presented to us as well that would suggest that where regulated routes are operated and there is a far higher degree of transparency around pricing, that does tend to impact downward pressure on prices and that on unregulated routes, where there is very limited transparency, there does seem to have been the emergence of duopolistic market structure and higher airfares. There is a bit of an open question at the moment around the degree to which some form of intervention, particularly around information provision, may be beneficial. I am flagging that there are shades of interventions. You might not go in and dictate what prices are

going to be but I wonder if you have any thoughts on the degree to which a greater degree of transparency might be of assistance.

[9.10 am]

Mr GOODING: This goes to one of the suggestions that we would make for the inquiry; that is, we think there is an opportunity through the Regional Price Index process that is operated around Western Australia by the Department of Primary Industries and Regional Development to pick up airfares as one of the categories. It would not be within the standard basket of goods but there is probably no reason why you would not use the same survey cohort to be talking about not only perceptions of air price and whether it is affordable or not, but also what those prices might be.

You will see in our supplementary submission that we drilled into the Perth–Broome route. Ten fare classes apply on that route. As of this month, those fare categories range from \$275 one way to Perth to \$1 208 one way to Perth. It raises, in my mind, the question of what you are reporting on. If there are 10 categories of airfare on each particular route, what is it that we are reporting on in the public domain? I think there is a technical question there about: are you reporting on median price? As soon as you start reporting on all of those categories, you are in very commercially sensitive territory.

Intuitively, we would be supporting putting rational information in the public domain. I start to question what it is you are actually reporting that you are able to report effectively, but think that there may be a strategy through the prices index and the Living in the Regions survey to be able to get better information in the public domain, which I think is your objective to try to keep some openness to the range of prices that might be available. Sorry, that is a longwinded answer.

The CHAIR: No; that is very helpful. I am a newbie to all of this. I do not have a background in airfares at all. Could you explain your proposal a little more?

Mr GOODING: The state government conducts two survey processes around Western Australia in the regional development space. One is called the Regional Price Index. They regularly survey a basket of goods and create an index between the price in the metropolitan area and the region. That is largely about the cost of living. If you argue that airfares are an important part of the cost of living in remote localities, it would seem reasonable to me that you could add a question onto that same group of survey respondents about airfares available in particular regions. That is one survey.

The second survey process is one that is called Living in the Regions, which is a perceptual analysis of a large cohort of people who live in regional areas—drilling into the hearts and minds of regional Western Australians about what it is that makes living in the regions both better and worse than living in the metropolitan area. That is a perceptual thing. I would have thought you could add airfares onto that. Rather than say this is too complex and nothing can be done, there are a few things that might be able to be done.

The CHAIR: We incorporate that information into the calculation on these indices—what then? What do you anticipate that will tell us or what sort of an impact do you think that can or should have on regional airfare pricing?

Mr GOODING: Sorry; I had not made the connection in that case. I think a suite of things need to be done, both by industry and government. We do not have control of many of those factors. Regional development does have some impact on those two small components that I have just spoken about, so I think you could do something there. I think there has to be some serious market segmentation work done. Industry has done it in a couple of places and it has proven pretty valuable. It has been done both in the East Kimberley and the West Kimberley in the leisure market but it probably needs

to be done across a range of other segments. There needs to be a piece of work done around an options analysis: how people make their choices; what choices they make; and to what extent those choices are impacted by price and availability. We are working virtually in a data-free environment here. I read some of the previous submissions and transcripts. Many people point to the same sort of need. We are just trying to put some words around how that might be a recommendation for the inquiry.

Mr D.T. REDMAN: Just on the indices, the Regional Price Index feeds into things like the district allowance, for example. I am assuming that sort of goes by extension therefore there is broader assistance of those that provide services in the region, if you have a district allowance that has some compensatory factors with respect to airfares. Is that a reasonable flow-on effect? Would that be positive?

Mr GOODING: I think the linkage you make is absolutely accurate. Work has not been done yet on whether it is able to be added to the basket of goods. You are talking about adding it to the basket of goods here. It is probably a small piece of technical work to see whether that is practical or not. I think it would be desirable, though, if it were included. It is less relevant in the city obviously than it is in remote areas, but it is pretty relevant here.

Mr D.T. REDMAN: Jeff, what about the other actions? That transparency-type thing was one. You said that you had a number of other potential actions. Can you summarise those, please?

Mr GOODING: Sure. Effectively, we need two approaches in our view. One is that we need to operate a data-driven approach. Our suggestions there would be, consistent with our submission, a properly designed, evidence-based analysis communicated to government business users, airlines and the regional community could improve transparency and reduce conjecture about what actually drives pricing of airfares around the state. Secondly, the market segmentation studies have been done on some routes. However, to better understand the issues facing airlines, industry and regulators, that work could be significantly expanded, particularly into routes that have high levels of impact for community and industry—so segmentation studies.

Choice modelling, which is a term that the tourism industry would understand, based on improved understanding of market segmentation will provide the basis for better informed policy, more targeted industry, marketing and enhanced airline decision-making. This is a partnership; everybody is in it. All the players need to be participating. Quantitative tools to monitor regional prices—this goes to your point—and report on qualitative consumer attitudes to airfares could be developed within the Regional Price Index and the Living in the Regions survey process managed by the former Department of Regional Development, now DPIRD. That is how we think we might be able to work on a data-driven approach.

You would have noticed from the Department of Transport's input that an integrated approach for the state is probably something that is justifiable as it is a complex interlinked series of processes. Our recommendation would be that a whole-of-government, whole-of-state approach may enable the various agencies of government to facilitate improved outcomes in policy, tourism and regional development. I particularly highlighted those three. Finally, considering the return on investment for a ramped-up marketing program would underpin improved services. This goes to how the state might be able to support the addition of new routes to effectively grow the pie.

The CHAIR: I know that you sat and overheard the evidence that has just been provided to the committee. The shire has been working on the development of a direct service to Melbourne. Have you been working as part of that project?

Mr GOODING: We funded the initial feasibility and the development of the business case that the shire CEO was talking about. We are integrally involved in that. Although it is an industry piece of work, so we are letting industry effectively come back with a recommendation. Our role would be to try to advocate for whatever is a sensible solution back into the government process. We would be working with Tourism WA, for instance, around how their choices are made around their marketing program.

The CHAIR: Do you have a sense of other sorts of forms of state or commonwealth government action that might help alleviate or address this issue here in Kununurra? Do you have any thoughts on any other steps that state or federal governments might take?

[9.20 am]

Mr GOODING: That was the challenge that we gave ourselves when we tried to come up with some suggestions for the inquiry relative to your terms of reference and what we think needs to happen. Because we are working in an environment in which the factors are not well understood and the interaction of the factors is not well understood, we have to get some better data. We need that issue elevated because it currently does not have the priority it needs to have.

Mr S.J. PRICE: Jeff, who do you think should do that work that you refer to?

Mr GOODING: That is why we think it needs to be an integrated approach with Transport, Regional Development and Tourism as a key starting work.

Mr S.J. PRICE: Transport and Regional Development said the same thing: somebody should be getting the data.

The CHAIR: But nobody is putting their hand up to say, "We'll do it."

Mr GOODING: I have spoken to both of them and I think you will find that there is some fertile internal government thinking happening in that space. This problem does not rest on this desk. It does not rest on that desk. It is somewhere in the middle. There is a cooperative effort required here. Who has got a stake in that? Regional Development, Tourism and Transport. I am Regional Development in this context, so we are saying we are prepared to be part of that.

Mr S.K. L'ESTRANGE: When I have thought of Kununurra, I often thought of it in the context of "in Western Australia". When you look at Kununurra, it is closer to Cairns than it is to Perth. When you are drawing people to it from a tourism business perspective, particularly when you are targeting Melbourne with what you are trying to achieve at the moment, you would therefore be competing against places like Cairns, Kakadu and Kununurra. There will be a suite of offerings for tourists across the north of Australia. Have you done anything to look at how you can match what is on offer in those other parts of northern Australia?

Mr GOODING: I would challenge the notion that you need to match.

Mr S.K. L'ESTRANGE: I am talking match in terms of what they might be doing from a marketing perspective.

Mr GOODING: And value for money?

Mr S.K. L'ESTRANGE: Yes.

Mr GOODING: First of all, the sort of product that is available in the Kimberley stands apart as being quite unique. I see from the nods around the table that people would accept that point. We do compete with other destinations. The industry groups that are trying to drive alternative solutions,

and that is the East Kimberley marketing group and the Broome tourism group, are both aware of where they are pitched in the market and what they need to do to be able to stay competitive in that environment. Airfares are a big part of staying competitive in that environment. Marketing those new services, we think, is good return on investment but that is only intuitively thinking that. The work needs to be done on whether it is actually return on investment. My sense is that when the work is done, that marketing alone is a valuable investment in underpinning the new services.

Mr D.T. REDMAN: Jeff, do you think there is any market failure in the airline services and pricing into this area or is it simply the commercial reality of operating in the context of what you described when you first sat down?

Mr GOODING: There is a general view that the markets have failed. I suspect that that is probably an economic term and I am not sure whether it meets all the right criteria. They exhibit all the factors of market failure. How do you intervene to do anything in this space given that we do not regulate prices nationally or in the state and that the competitive environment by the time you get to these very thin routes in northern WA is pretty marginal? I am probably wandering off the point there.

The CHAIR: No, you are on point.

Mr GOODING: Can you go back to the original question?

The CHAIR: I think we are just trying to get a sense of the degree to which you think there is functioning competition here, that there is tension that is sufficient to put that downward pressure on prices. I guess it comes back to the earlier point I was making about forms of intervention. You do not necessarily need to come right in. In the absence of functioning competitive tension, there is nonetheless some downward pressure that could be exerted by different forms of intervention.

Mr GOODING: When you look at the competitive environment in Broome and services into Broome, there are well in excess of 300 000 passenger movements through Broome airport able to sustain reasonable levels of competition. The Department of Transport tell us that 100 000 passengers a year is the general rule of thumb around being able to sustain competitive jet services. I think we have 80 000 plus or something like that through Kununurra. It is marginal. Bearing in mind these decisions are all made in the east, you do not want to do too much that impacts on that viability, which is what leads us to you needing to grow the pie rather than cutting the cake differently and growing the pie is about some new services. That is the underpinning rationale around why you might want to go to Melbourne. The industry has done the work around whether Melbourne is more sensible or whether Sydney is more sensible. They focus in on Melbourne. They are pretty close to an arrangement, which is about \$400 000 short, which is pretty small bickies, we would have thought, in getting a new service in to grow it. Intuitively, we all think that if you grow that service, it will become sustainable very quickly.

The CHAIR: I accept that idea. This inquiry, though, is looking at intrastate services. Fair enough, the pie may grow between Melbourne and Kununurra and that may be increased tourism dollars but that might not necessarily affect the local community's ability to commute effectively or cheaply between Perth and Kununurra. I guess we might just be baking another pie, which does not address the community's concerns that they have here in Kununurra about having access to family and education facilities in Perth.

Mr GOODING: I think they are linked. I do not think that additional services into Kununurra is completely separate from the impact that might have on the competitive environment in the rest of Western Australia. The extent of that linkage, I do not know. That work has not been done.

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

Hearing concluded at 9.28 am
