

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT PERTH
WEDNESDAY, 13 SEPTEMBER 2017**

SESSION ONE

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 9.16 am

Hon COLIN de GRUSSA, MLC
The Nationals WA, examined:

Mr VINCENT CATANIA, MLA
The Nationals WA, examined:

Ms JOHANNA RAMSAY
Independent Aviation Consultant, examined:

The CHAIR: On behalf of the committee, I would like to thank you for agreeing to appear today to provide evidence 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 is the deputy chair, Sean L'Estrange, the member for Churchlands; to my right is Yaz Mubarakai, the member for Jandakot; and Stephen Price, the member for Forrestfield. Terry Redman, the member for Warren-Blackwood, is an apology. 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 to you to assist the committee in its investigations.

Could you please introduce yourselves.

Mr V.A. CATANIA: Vince Catania, MLA, member of the National Party of Western Australia.

Hon COLIN de GRUSSA: Colin de Grussa, MLC, member of the National Party WA.

Ms RAMSAY: Johanna Ramsay. I am an independent aviation consultant and a former CEO of Skywest Airlines.

The CHAIR: On your "Witness Details" sheet you have "on behalf of National Party".

Ms RAMSAY: Today I am consulting to the National Party.

The CHAIR: So you have been engaged by the National Party on a consultant basis to provide evidence today?

Ms RAMSAY: Correct.

The CHAIR: Thank you.

Thank you for your submissions to the inquiry. Before we begin with questions, do you have any questions about your attendance today?

Hon COLIN de GRUSSA: No.

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

Mr V.A. CATANIA: Yes, I would. Thank you for allowing us to be called to this inquiry. It was interesting to read the transcript of evidence of the Department of Transport. I was quite amazed

at its lack of understanding about aviation, and its lack of expertise is quite concerning. I think that is the reason there are high airfares.

I would like to make an opening statement about our position, if you can bear with me. I would like to say that basically Western Australia has a monopoly and duopoly. It should be no surprise to anyone that the current arrangement of monopolies and duopolies has brought high airfares. It is a textbook case of what happens in such circumstances in any industry. It is, literally, textbook economics 101. Without taking action to control airline behaviour, this situation is highly unlikely to change. There is literally no incentive or reason for airlines to reduce the price of airfares.

Can I highlight that regional air services are essential. That is a key factor that the Department of Transport has failed to really understand. It is essential for people who live in regional WA to have good air services, in the same way as power, buses, trains, water et cetera. It cannot be left to commercial providers to dictate pricing and services to captive consumers. The state invests hundreds of millions of dollars every year into the metropolitan transport system—buses and trains are essential in underpinning critical linkages in and around the Perth metropolitan area and outer suburbs. The state also regulates the delivery of essential services to regional and remote areas—for example, power, water and communications. The regional air transport network is equally important to remote and regional areas, yet government policy and regulation has failed to provide a network that is efficient and affordable.

[9.20 am]

The rhetoric that “we are lucky to have a service at all” must change. The air routes across this state are valuable. They are an asset owned by the state—I repeat that: they are an asset owned by the state—and access to them should be managed as a state-owned resource in a similar manner to iron ore or gold. Airlines want to access these routes, and they bring regular and significant revenue streams to airlines, which brings many benefits to a business.

We have smoke and mirrors when it comes to pricing. This must end. Consumers have a right to transparency. A 30 per cent discount for residents is just smoke-and-mirrors pricing—“30 per cent off what exactly?”—and it does not assist in addressing the wider issue of stimulating tourism and business development. I think Qantas has missed that point. There are many models of regulation, network combinations and tender processes. Assumptions on limitations should not be made. A statewide approach is required, with no more cherry picking, as exists at the present time.

What are the solutions? Firstly, government should accept that air services are essential services and it should manage access to those routes in the same way as other essential services. Do not leave it to the airlines, unchecked, to decide what we will pay and when we will fly. Going forward, the state government must recognise that the regional air transport network is an essential service and that it is very important to the economic prosperity and social wellbeing in regional WA that government must take a tough approach to regulate those services.

There should be regulation for transparency and no longer smoke-and-mirrors pricing. The government should look to the resources industry and federal government examples of regulation and open-book contracting, which work to protect the consumer and to protect airline margins. We should not be looking at the airline industry, but at all models of government regulation, of which there are many. We must include airports as well as airlines—and the whole state. This point is essential. Include stringent and transparent regulation of airfares, schedules, regional linkages and service levels. Leverage and use the access rights to stronger routes by combining them together as a network, thus bolstering airline interest in total network delivery. There is no reason that this could not include the presently unregulated monopoly and duopoly routes of Exmouth, Onslow,

Karratha, Port Hedland, Newman, Kununurra, Paraburdoo, Geraldton, Kalgoorlie and Broome in any number of combinations with less robust routes.

An independent expert economic committee should be established to assess the above suggestions and to make recommendations for a future form of regulation that will serve the people of Western Australia. We should address airport infrastructure and security screening to remove any operational barriers by standardising structures and equalising fees across the state. And, as in a question that was asked of the minister in Parliament last week, we should halt all new tenders until what I have said above is complete.

That is my opening statement. We are happy to take any questions on our submissions.

The CHAIR: So are you essentially recommending that the state government consider completely reregulating regional air routes?

Mr V.A. CATANIA: What we have at the moment is a monopoly or duopoly; there is actually no competition in regional Western Australia. What I am saying is that we utilise regulation as a form of government control to ensure that the right pricing is being put forward, whether it comes to us in buses, trains and our utilities. Why is it so different when it comes to aviation in regional Western Australia or in Western Australia in general when it is the government that provides that licence? What is missing?

It is clear from the evidence from the Department of Transport that it has no clue. It is not using its regulatory power to keep those prices down. So I am saying that we have the monopoly and duopoly system already. Some parts are regulated. Let us look at regulating the state to ensure the government has control over pricing and the number of flights per week. We should be treating regional Western Australia as one destination rather than 50 different ports, for argument's sake. We all understand, and the only thing the Department of Transport has got right is that there are some smaller areas that it says are not profitable or marginal. Where is the evidence to back that up? I am concerned that it makes these sweeping statements, but there is no evidence to back up why they are marginal when airlines are willing to fly to those destinations—those ports.

Clearly, there is money to be made, especially with the prices they are charging of around \$1 000 for a return ticket to places like Carnarvon, Monkey Mia, Mt Magnet and Wiluna, and \$1 700 for a return to Paraburdoo—plus at Christmas, prices that are sometimes nearly \$3 000 return. If airport fees and charges are making up the bulk of that, well, that is fine; let us be open and transparent. Let us put what the fees and charges are when it comes to local governments and when it comes to our airports. I think we can see what those fees and charges are. But let us be open and transparent when it comes to the fees and charges that airline companies are saying it costs them, or that it is marginal, or that they are making \$7 per ticket—get them to prove it. Do not prove it to us, but prove it to the Department of Transport so it has a good understanding of why they are charging \$1 700 return. I think that is important. What has been lacking in this whole process is that the Department of Transport has stepped away from ensuring that the pricing structure is regulated, that it is not a runaway blank cheque which has been basically there for airline companies to charge, because they are allowed to cherry-pick what they see as profitable and what is not. That is the real crux of the argument here.

The CHAIR: There is quite a lot in that answer.

Mr V.A. CATANIA: I wanted to get all of it on the record.

The CHAIR: Let us break it down; as they say, you eat an elephant one bite at a time! I am not saying that regional airfares is an elephant, but there is an elephant in the wheatbelt. When we are talking about broad-brush statements and market failure, the evidence that has been put to us previously

by operators on unregulated routes is that there is sufficient competition and tension working between the operators on that line. Do you have any direct evidence to suggest that that is not the case?

Mr V.A. CATANIA: High airfare prices. How can you say that there is no tension when people are still paying exorbitant amounts to fly to Karratha and back when two airlines fly there—paying \$1 200 or \$1 400 for return airfares? Is that enough tension? I would have thought so. Perhaps I can pass on to Johanna.

[9.30 am]

Ms RAMSAY: I will just add to that. When we talk about competition, the airlines are operating in this state in either a monopoly or duopoly situation, and anyone who has had any basic introduction to economics knows what happens in those markets. It would be unusual to see any business not operating in a monopoly/duopoly situation in a way that maximises their yield. Airlines have very, very sophisticated yield management systems. It would be a failing of the airlines if they did not manage their yield to that breakpoint whereby they know where the demand curve is and where the demand will drop off. It is a very exact science and there are very sophisticated computer systems that do those calculations for them. They have teams of people managing yield and they know exactly how far that airfare can go before they start to erode their overall returns.

The CHAIR: That is probably the point at which they will start to see competitor response as well. I am packing how this yield management works; it seems to be a really dark art. Certainly, we are given no visibility on how it works. In fact, we asked a series of questions—I do not know if you heard this in our hearings last week—around price structures, cost structures and margin management. We will invite operators back to provide information. I understand that there are commercial-in-confidence pressures, but given your experience in the industry, are you able to give us a bit of an overview of how you understand it works, and maybe give us some pointers as to things we might look for when we take evidence in confidence?

Ms RAMSAY: I will start by saying that as a state we do not need to accept the smoke and mirrors that goes on. I will point to, for example, the resources industry that holds major multimillion-dollar contracts with the airlines. I am aware of specific examples whereby a resources company will contract with an airline in an open-book manner; in other words, the airline must list exactly what their charges are and then they put their margin on the end of that. Then the resources industry client may say, “Okay, that is a fair margin; we accept that, so this is the price we are going to pay.” That is very, very transparent. It is not unusual, in the same way that the federal government does it in some areas as well, when there are remote flights to small populations. Examples of that would be Christmas, Cocos and Norfolk Islands. Again there is open-book management, so the government is aware exactly what those costs are. I can use again the example of the resources industry: this is an area that has been held in the tightest commercial confidence.

Looking at the other end of that, there is potentially a very big impact to the state and the community from that. What happens is that the resources industry as a major buying power. They might be spending, who knows, \$100 million in the state with Qantas. That gives them significant buying power. They are going to negotiate the best deals on their routes. Where the airlines will make up the difference, the higher yielding stuff is the community. In fact, you could look at that and say mum, dad and the kids are in fact subsidising the resources companies so that they get the cheap airfares and good deals and the leftovers go to mum, dad and the kids.

Any of these airlines could provide you with a very clear printout of the average airfares on each route. I want to make this point clearly too, and I have made it previously. The Department of Transport talks about regulating the maximum fare. That is a completely irrelevant number. It is

irrelevant to what people are paying—also regulating how many discounted fares, or what those discounted fares are. The number that matters is the average fare that is charged. That fare should be presented as an average fare without the resource industry fares in there. You might find that the resources industry is paying \$150 but the rest of the state is paying an average of \$300. It is not hard to dig down to those numbers. Airlines will not want to give them to you, and resources companies will not want to give them to you either.

The CHAIR: Would they not want to give them to us because of the level of visibility and, I guess, outrage it might generate in the community, or because of commercial competitive issues?

Ms RAMSAY: It is possibly both. However, going back to commercial competitive issues, I guess a decision for the state to make is how much transparency it demands. If we take, for example, the Carnarvon–Shark Bay route—just that one route—the value of that licence to the airline, at a high level, in revenue terms is about \$50 million over the term. That is a very valuable contract to win. We do not know what margins they are making. We do not know because we do not have transparency on that, but that is something that is really, really valuable. So in my view, the state has a right to see exactly what is in that and how much margin is being made. Again, I say that is not unusual at all. The resources industry does that all the time. It is not a difficult thing to do.

Mr S.K. L'ESTRANGE: Something put to us by one of the airlines was that mining companies would pre-book based on the web-based fare system so that if fares are put up, like, three months in advance and they could get the deal at \$300, for example. The mining companies would then just go in and pre-book all those seats in advance. That evidence told me that they are not actually setting up a contracted price with the airline; the mines are just grabbing hold of those early deals and blanket booking. Have you come across anything like that?

Ms RAMSAY: I suggest there may be examples of that. It would not surprise me, however; it is very common practice to have negotiated fares with major buyers. In fact, I would suggest that if you have not heard from them already, at least somebody from one of the major corporate travel management companies should present to you as well, because they definitely have very strong insight into brokering those deals between airlines and airfares and how that looks.

Mr S.K. L'ESTRANGE: That is an area that we have not gone into yet —

Ms RAMSAY: I suggest that you look into it.

Mr S.K. L'ESTRANGE: That is who runs the website booking services, for example; if they are separate to the airline, and whatever. Could you take that on notice to make some recommendations about who we should talk to?

Ms RAMSAY: Absolutely; and I am sure they would be delighted for an opportunity to talk to you. That is another area again. The global distribution system is a computer system that most airlines are part of. That is like a warehouse, if you like, where all the seat inventory sits. There are systems that sit on top of that which people access. It is definitely worth seeing how all that works.

The GDS is another matter that you can delve into. There was great disappointment that the Department of Transport gave an undertaking to allow the airline in Shark Bay–Carnarvon to operate without being included in a GDS, which actually had a very big impact on that area. It meant that travel agents around the world could not see those flights, and it meant that tourists could not see those flights. Unless they had specific knowledge that that airline flies there and this is what they are called, people could not find them. So a travel agent sitting in Italy could come up with nothing if they went to search for flights from Perth to Shark Bay. That, unfortunately, had quite a big impact. I am not aware that this has been measured or quantified, but it is a well-known industry factoid that if you are not in the GDS, you are not visible.

Mr V.A. CATANIA: Can I elaborate on that? Johanna is right. That has had huge consequences for the World Heritage area like Shark Bay. My car is currently parked at Exmouth airport, and around my car are all these cars with “C” number plates, because everyone is choosing to either drive to where they can get the cheaper airfares, like Exmouth, or driving down to Geraldton and leaving their cars. Currently there is a car park full of Carnarvon number plates. That also distorts some of the numbers on the pax in Carnarvon and Monkey Mia. They will say that numbers are down. Numbers are down because, one, the GDS system is having an impact on international tourists visiting. Often when international tourists travel with baggage that is more than 20 kilos, that has an impact when flying on smaller aircraft and the amount of luggage that can be taken on board. We are seeing that with Rex and Skippers. I do not want to get into the issue of aircraft type and leisure companies versus charter companies because I think that comes about by getting your regulated routes done properly. The Department of Transport having the right criteria when they go out to tender is something that has changed since 2005 when there was a regulated system that covered all the areas from Esperance to Exmouth and the coastal network. There were certain criteria. It had to be at the main terminal; a carrier had to be able to carry a certain amount of weight; alcohol, for example, was served—the simple thing of buying a beer on a plane. All those things have an impact on a person’s ability to travel as a tourist to those destinations. I think that has had an impact on the numbers as well as people looking at the cheapest fare going to Exmouth or Geraldton, or simply getting in a car and driving down. Especially for families, it is cheaper to drive down to Perth from Carnarvon than it is to fly.

[9.40 am]

The CHAIR: It is a pretty extreme response, though, to come back in and completely reregulate the flight network in Western Australia. Interventions appear on a continuum. On your evidence today, one of the things that is coming through to me is that the major problem here is transparency and information. One of the things that the state government can do and perhaps does not do at the moment is require the production of information that would itself exert a downward pressure. In terms of potential interventions, if you were not going to just take the whole air network back, I come back to that question I asked you before, Ms Ramsay, about what types of information would be helpful and the disclosure of not just the average fare, but even more granular than that; what types of information are going to encourage the sorts of behaviours that we would like to see putting downward pressure on prices?

Ms RAMSAY: I think, if I can be frank, and I have made this point to the Department of Transport in a number of papers over a number of years, if within that department there is a deeper understanding of how airlines work, then you can really start to get a picture of what is real and what is not. I do not want to be disparaging towards airlines but DOT formed a number of opinions within their last strategy document that I made the point were not based on fact, or research, or referable documents, or data. For example, they said airlines need a 75 per cent seat load factor, although that, as a sweeping statement, is blatantly just incorrect because it depends on the aircraft type, it depends on the airfare that you are charging, it depends on your fixed costs and your operating costs and particularly when you are looking at monopoly and duopoly routes that seat load factor—the breakeven point—is going to be much lower. It might be 75 per cent in a high-frequency European town to European town where there are a lot of people and they are flying a lot, but when you have a high-yielding captive market, I certainly know of examples where that is down around 55 per cent. Again, it is a statement that has been made without any basis in fact. DOT stated in their paper that Carnarvon and Monkey Mia is a marginal, unprofitable route. How do they know that? They know that because the airline said that. But they do not have, to my knowledge—I did ask the question and there was no answer, unfortunately—any visibility on what that is based

on. There are so many different models of airlines that to make a sweeping statement such as that is, I think, incorrect. DOT also said there is no economic justification for inclusion in the global distribution system—the GDS. Again, they did not qualify that statement, or say why, or there was no research about the impact of not being in that GDS. They said that GDS costs around \$1 million to implement. Again, where did that come from? Why are they saying it is \$1 million? There are so many models for inclusion in a GDS. Some airlines piggyback off other bigger airlines so there is no actual capital outlay. There is a great deal of those DOT themes that did not, in my view, add up and were not supported by any justification.

So, going back to your original question, which I have gone off track from, as a starting point, if they had a very clear understanding of these things and instead of just saying, “This route is unprofitable”, we know what that means. When we say it is unprofitable, what is an acceptable profit? Is it 10 per cent, 20 per cent or six per cent? What is a profit that we think is reasonable? If an airline is saying there is not enough profit in that, what does that actually mean? Without those understandings, we cannot responsibly manage the deeds. The deeds, in my view, are inadequate. The KPIs are inadequate. They are self-regulating in a lot of cases. They do customer surveys about satisfaction; the airlines run them themselves. I certainly know of examples whereby it is very easy to manipulate those results by surveying certain passenger groups that are going to be favourable. I am not suggesting that has happened but, without the thorough understanding of the airline industry and with history and experience in the airline industry, you cannot run these contracts properly. What could you do without making that—it is a major change to take a whole-of-state approach. It is a major change.

I still think it is the right thing to do when you go back to that question: are these services essential? When I say “essential”, I mean that word in the particular essence of the word, in that it is an economic term and it is a government term of essential services. The answer would be that you would regulate the whole state. Going part of the way there, the deeds could require, as the resource industry does and other parts of government, open-book management so that you agree what the profit margin is. That actually also protects the airline, not just the consumer because if there is a major change in the market and, all of a sudden, the airline is not making any profit, that is no good for anybody. Then you can be aware of that and address it. So it protects the consumer and it protects the airline. Those things like establishing, from the start—there is a tender out in the market at the moment; there is still only talk about maximum fare. Again, it is irrelevant. What is your average fare? Say, for example, the average fare is agreed between the state and the airline that it is going to be \$250, then you peg that as the KPI. The airlines can manage their yield to that number. In that way, then you have a fair deal, you are transparent, the consumer knows what to expect, and the state is getting a good deal.

Hon COLIN de GRUSSA: Can I just add that one of the things I think is important and I am not sure if it is being considered—I have not seen it in any of the transcripts, and it may be outside the scope of the committee—but that is also the airlines do not just carry people; they carry freight. Freight is an essential part of what they do in regional Western Australia. It helps businesses, hospitals or whatever get the stuff they need. I know that has certainly been an issue in Esperance, where I am from, because of aircraft type mainly. Often, in the early days of Regional Express, freight was getting left behind and businesses could not continue. But freight does not need a seat, it does not need anything to eat, and it does not need any safety equipment, so it is actually quite a profitable part of the whole picture for airlines. I think, again, going back to what the Department of Transport could do in considering this, they need to consider everything that the airline does, not just the people in the seats. I think that is sort of critical.

Ms RAMSAY: There is even a wider picture than that because ancillary revenue, being those other bits that are not the bums on the seats, and freight is a perfect example, but there is also car parking, for example. When revenue goes to the airline, depending on where the airline operates from, there is potentially massive amounts of money from car parking, from change fees on your bookings, from credit card fees, from freight, from excess baggage—all of these create that whole profitability picture. So those numbers can actually be quite significant and, again, DOT should take the position of understanding what that is before they form the opinion that it is not a profitable route.

The CHAIR: So the tender process itself then—yes, I will stick with this question; I have about five in my head, so I am just going to manage the elephant in my head!—in terms of how it is operated, what improvements would you suggest could be made?

Ms RAMSAY: Thank you for that question because it is one that has been quite a significant issue for my clients for quite some time. We have made many representations to the Department of Transport about what should be included in those tenders. Unfortunately, we have not heard any response from them over the years. But —

The CHAIR: Let us hope this prompts it, right?

Ms RAMSAY: Yes, let us hope so! I think I am in the right place to prompt it. For example, flight schedules with frequency and linkages and timing that recognise the social needs of the area that is being tendered for. As an example, historically, there have always been flights between the Gascoyne and the midwest—Geraldton. Geraldton, in the past, has been a major centre for medical and education and sort of social needs—family connections. There have always been three flights a week; now there are none. That is an example of the airline cutting back the schedules and the social suffering that goes with that. That needs to be taken into account in the deeds. Airfares are benchmarked—as I talked about, the average fare should be in the deed. They should be bidding in the deed with an average fare. That is where you get your competition; if, say, one airline comes up and says their average fare is going to be \$300 and another airline says they are going to do it for \$250, then you can start to see some real impact to the state. Participation in a GDS should be essential. That is that global distribution system. It has always been in place, up until the last five years —

Mr V.A. CATANIA: Till 2011.

Ms RAMSAY: — every airline in the state was included in a global distribution system.

[9.50 am]

The CHAIR: Why did that change, sorry?

Mr V.A. CATANIA: It was taken out of the contract. My understanding is that when the regulated route between Esperance and Exmouth, for example, was cut, the deed really did not have any of that information. It was basically a blank document that anyone could tender for that route. My argument was that was a problem; you need to be able to have your specific requirements in the tender document and I believe that was taken out.

The CHAIR: Was the justification for that, though, that without an obligation to participate in the GDS, that would mean your costs were lower and it might drive the price down?

Ms RAMSAY: The justification that I saw written in the strategy document was that it was not feasible.

The CHAIR: Right.

Mr V.A. CATANIA: But also, I will go back to essential service and the fact that you are lucky they get a plane flying there; that is the attitude. I will argue the attitude is, yes, we should have a GDS

for flying to the Gascoyne, the midwest or wherever. Why should it not be part of it because it is not about just having bums on seats; it is about how we grow the market through tourism and how people can also have a leisure aircraft that caters for the needs of tourists and people who do need to travel down for medical, schooling or so forth?

The CHAIR: We understand that.

Hon COLIN de GRUSSA: It goes back to the essential service argument that it is a driver of the regional economy.

Ms RAMSAY: Essential with a capital E.

Hon COLIN de GRUSSA: Absolutely.

The CHAIR: We have had a lot of evidence to suggest that, and hopefully you have picked that up as you have reviewed the transcripts.

Hon COLIN de GRUSSA: We certainly have, yes.

The CHAIR: I have been banging on about that an awful lot. Continuing on with your recommendations about improvements to the tender process —

Ms RAMSAY: If I go back a few years, this is what we did have and I want to make the point again that we are sort of focusing on particular areas here, but the whole state is at stake. There used to be a frequent flyer program for people in the Gascoyne. That may sound like a small thing, but it is actually quite a big thing. There were passenger lounges and facilities at the main airport. There was a customer contact centre that you could call 24 hours. There was a destination marketing program. There were transship agreements with other airlines so that you could book a seat from Carnarvon to London, for example. Your bags would go all the way through; it would be one ticket. There were destination marketing programs across Europe so there was a representative in Italy who would go to travel shows and say, “Look at this place! This is the Gascoyne; this is Exmouth”, for example. So, after that —

The CHAIR: But they were not conditions of tender?

Ms RAMSAY: No.

The CHAIR: Okay; I just want to clarify that.

Ms RAMSAY: No. These items used to be required. It was in recognition that there is a great difference between a tourism destination, which the Gascoyne is, and, say, a mining town where it is not so important that you are promoting tourist packages and you have not got backpackers coming through, and the like. All of those things were in place and in 2011, the tender ran. A lot went on in that and, on the one hand, the incumbent then was Skywest/Virgin and the tender went to Skippers, so they took over from Skywest/Virgin. I cannot say why it went to Skippers because I was not privy to that assessment but there was a profound change at that point because all those things that were in place—the connectivity with the rest of the world, the visibility to travel agents, the proximity in the main airport—then went from that point forward.

Again, I do not want to be airline-bashing here, but the Department of Transport set up quite a different structure that was in place. To say that those things are not feasible is incorrect, in my view. Since that time, too, I think we have seen a downward spiral in the number of passengers. This is sort of a chicken and egg thing; on the one hand, we are saying the numbers are reducing so we definitely cannot have that stuff now, but the numbers are reducing because of these things. So we have this downward spiral that will keep going until we get to a point whereby we might have a Cessna flying up to Carnarvon next.

There were a number of other things as well, like security screening in the state is kind of a big issue. It does add cost at the airport, however, and I know you have had a chat to DOT about that also, but there are strategies that could work to neutralise that as an issue. One could be an equalisation plan across the state so wherever you are flying out from, you pay \$10 for security or whatever it might be so that you are not unfairly penalised if you are flying out of Albany or Esperance or wherever. Or, it is a federal government law and the sensibility of the law has been questioned because of the 20-tonne cut-off, which I think was explained by DOT.

Hon COLIN de GRUSSA: Yes, the Shire of Esperance invested heavily in looking after their gear and then when Regional Express came in with a smaller aircraft, that was redundant. That was the cost they had to bear in terms of the staff and everything they had to let go. You were talking about the change, and Esperance has seen a similar change since the change from Virgin/Skywest to Regional Express. I am not bashing Regional Express here at all; is a different aircraft. A different aircraft brings with it a big change, which is a luggage limit of 15 kilos. People connecting to international flights are now driving to Perth because they cannot get their luggage on the aircraft, and returning.

The CHAIR: We have evidence to suggest, though, that if you ring ahead and say, “Look; we’re flying out to Bali and we need to bring 23 kilos. Is that okay?” they will accommodate you.

Hon COLIN de GRUSSA: It depends on the load on the aircraft. It is at the pilot’s discretion, the weight of the aircraft and certainly in my own experience, I have had plenty of occasions when the luggage has not made it and it is more difficult to check it through. In fact, one of the things they ask you at the airport is, “Do you have a connecting flight within 24 hours?” because they cannot guarantee your bags will get there. Not bashing Rex here at all for this, but it is just a very different situation that has resulted in more people driving to Perth than otherwise would—certainly families as well.

The CHAIR: With the big bang solution of going in and just reregulating the whole thing, is there any risk that we might see the major carriers go, “You know what? We just don’t want to be part of that market” and exit completely?

Ms RAMSAY: I would be extremely surprised. I think some risk analysis would have to be done on it but I think, going back to again understanding the value of this state in terms of the routes, there is a huge value in this state. Those routes are worth a lot of money—a lot of revenue—not just inside the state but the airline that is flying into Perth from Broome has the on-carriage across the country and across the world. I would be extremely surprised. Actually, to make this point, we have long heard the rhetoric that we are lucky to have a service at all. I do not believe that. I think that is a myth that has perpetuated and has taken effect so that even if you walk through streets in small towns, they go, “But we’re lucky to have a service at all.” This is a really good business. They are monopolies or duopolies. You have certainty of income. It is a safe revenue stream. To be getting just that one route—Carnarvon to Shark Bay is worth \$50 million over the term—is nothing to be sneezed at. It is a base from which airlines can operate their business. I would be very surprised, and that is probably an understatement, but let us say that did happen and the airlines walked away, Tiger would come in or Rex will get bigger aircraft. I cannot see any scenario whereby access to the routes in this state would be unattractive.

Mr V.A. CATANIA: Can I just add to that? We already have a monopoly and duopoly here, so we do not have the competition that you have elsewhere. So we have a monopoly and duopoly already here in Western Australia. What we are proposing to add to that monopoly and duopoly is regulation. So, yes, it sounds like this is a major reform when it comes to aviation in Western Australia but is it? All we are saying is that airline companies need to be open and transparent on how they charge their airfares. That is all we are asking, and for government to play

its role, like it does with other essential services, to ensure that it is open and transparent, and provides that regulation from the licence that they give out.

[10.00 am]

The CHAIR: I just want to tease that out because two concepts are being conflated there; one is licensing and the other is regulation. When you say regulation, what do you mean by that? Regulation could be anything when you put it into regulations, so what do you mean by that? What do you actually want the state to do?

Mr V.A. CATANIA: To be able to access the licence to fly, which every airline company has to do to access every port, we provide some regulation over that licence so there are some requirements that those companies need to adhere to. Like I said, an average fare is exactly what Ms Ramsay said on how you would look at deeds and so forth. It is not about saying, “Yes, you can fly to Karratha” without any check and balance. I am saying —

The CHAIR: But let me be very clear, because regulation is a really big black box and just saying that we need to regulate routes is a pretty meaningless statement unless you are very clear about what you want to regulate. So let us be very clear about what the National Party’s position is on what the content of that regulatory regime should be.

Mr V.A. CATANIA: I will make a quick statement. Regulation is to be able to reduce the cost of airfares; that is what we ultimately have to get to. We have to provide a regular service with a level of service. That is what I said about regulation ensuring that the prices are affordable—everything we have just discussed—and ensuring there is a level of service to those towns each day, or week, to make sure that the aircraft is suitable, to change the thinking of the Department of Transport and so forth. It is everything I have mentioned. That is the regulation we have in our minds. Why can the price of flying to Geraldton or Esperance not be \$99 for argument’s sake?

Why can flying to Karratha not be \$199? If you were to regulate the whole state, as I said, perhaps that is having a regulated monopoly providing the whole of regional Western Australia as one tender document saying, “Who wants to fly here? Here are five million passengers a year; give us your best price across the network.” Perhaps that is one solution. Or do you break the state up into three different tenders for different airline companies? I do not accept the fact that airline companies will walk away, as Ms Ramsay said. They are pretty profitable.

The CHAIR: I am not sure that answers my question, but maybe Ms Ramsay can.

Ms RAMSAY: Yes. The counter to monopoly—duopoly by government is to regulate. What form of regulation that takes, we do not have the answers right now. We wanted to suggest that a separate committee be formed, if you choose to go that way, that looks at models of market intervention in a monopoly—duopoly not just in Australia but around the world and not just airlines either—for any industry. What form of regulation do they take and what has worked? Then we will look at what models could apply in this situation and what might work. I think that would take quite a bit of detailed economic analysis and I say economic specifically because I do not think we would want a panel full of airline specialists. You actually want economists to look at this and pull it apart to see what form of regulation intervention is required in this market to get a better result, which is what Vince was talking about. We know what we want to get in the end.

The CHAIR: Yes, so rather than a big bang, what you are saying is that there should be a more comprehensive review of the forms of regulatory interventions that are available?

Ms RAMSAY: Yes.

The CHAIR: And then taking a look at the market, what then would be appropriate to introduce into Western Australia?

Ms RAMSAY: Exactly, yes.

The CHAIR: If this committee were to recommend regulation, regulation is such a broad concept that that is a meaningless recommendation.

Hon COLIN de GRUSSA: That is exactly the point we are trying to make, yes.

Mr V.A. CATANIA: I like your answer! That is what I was trying to say!

The CHAIR: A unity ticket there!

Hon COLIN de GRUSSA: That is the point we are trying to make, but —

Ms RAMSAY: There is no doubt it is a very complex area and is biting off a big thing that is going to be—to use the elephant—one bite at a time. We do not have to prove the case anymore that airfares are high. I think, moving on from that, they are because we are in a monopoly–duopoly. That is not going to change unless something significant changes. Then, you moved to looking at the options of regulation. My view is that some kind of regulation is required in order to counter that monopoly–duopoly situation. Adding more competition is not the answer. The markets are not big enough to take more competition and, in my view, that will cause more damage than not. You will end up with a bunch of airlines fighting over a small market. Airfares will go down, down, down, down until someone goes broke and no-one wins. Then airfares will go back up.

Mr V.A. CATANIA: That is what is happening in Exmouth.

Hon COLIN de GRUSSA: The point about the inquiry is relevant because the Department of Transport does not have that level of expertise that we need here. It needs to be independent of that body and have far greater expertise in economics and in aviation. That would be a good first step, for sure.

The CHAIR: Is there value in developing that capability within the Department of Transport, do you think?

Ms RAMSAY: Yes.

Hon COLIN de GRUSSA: Yes, I think —

The CHAIR: You say they do not have it right now but, is there value in —

Ms RAMSAY: Yes, absolutely.

Hon COLIN de GRUSSA: If they are managing airline routes in Western Australia, absolutely.

Ms RAMSAY: I think you need that in-depth knowledge. You need to know as much as the airlines know, so you need to understand what they are talking about.

Mr V.A. CATANIA: Which has been there in the past, to some extent.

Ms RAMSAY: Yes. There used to be a position in government called the aviation industry observer and that was Nick Belyea. I do not know whether you know him, but he is now the CEO of Broome airport. His role was this, basically. He was very in-tune and he had a great deal of expertise within the airline industry. I do not want to comment on the individuals who are in the Department of Transport because I do not know them, but judging by the information I have seen, it is not to a degree that promotes good decision-making.

The CHAIR: Sure. Great! Does anyone else have any questions? I feel like I have just been questioning you guys. Sorry to pepper you with so many questions!

Ms RAMSAY: It was great—perfect!

The CHAIR: Okay, airlines have told us that average fares have reduced in WA in the past five years. Do you agree with that assessment?

Ms RAMSAY: I have not seen any data on that.

Hon COLIN de GRUSSA: From what to what, I would argue. I mean, it is —

The CHAIR: Is that the problem, that you have not seen any data?

Ms RAMSAY: Yes. Also, with an average fare, we want to see not just a number; we want to see what is in that —

Hon COLIN de GRUSSA: What is the component of that fare?

Ms RAMSAY: Can it be broken down? How much is airport fees? The airlines are saying that the airport fees are a major problem, so I think that should be included in this whole question. It is an important question if they are saying it is a problem, then let us see —

Hon COLIN de GRUSSA: Let us have a look.

Ms RAMSAY: — transparently how much of a problem it is. Again, I go back to the point I made earlier about average fares. Is it the average fares for which demographic because the average fare for the resource industry might be quite a different thing to the average fare for mum, dad and the kids? If you separate the two, let us see what that looks like.

The CHAIR: I really want to ask another question but I am conscious that we are running over time. I am going to ask it because I am the chair and I can! You raised the point around airport charges and that has been a controversial and very material issue it would seem. We have had a level of information provided to us about airport charges and generally, there has been a real willingness on the part of airports. I understand that you have also had a look at some of the transcripts and the submissions that have been provided. Do you think that we have been given the full picture about airport charges, or are there other questions that we should be asking or other information or sources of revenue or charges that we should be taking a look at?

[10.10 am]

Ms RAMSAY: Airport charges are generally pretty transparent. They do not yield manage; it does not change for peak demand or highs and lows. It is like: this is the number. It is generally charged per head. Usually, it is pretty transparent. I am not aware of any way they have to sort of put the smoke and mirrors across the whole thing. Yes, to my knowledge, it is pretty transparent. It should be easy to look at the state—the nation, actually—as a whole, a look at what it costs to land there. There are passenger heads charges and there are also landing charges for the actual aircraft, so they get charged generally based on maximum take-off weight, and it is a price per kilo. So it is quite easy to compare those numbers.

The CHAIR: Okay; great. Thank you very much. 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 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 10.11 am
