

## Inquiry into Regional Airfares in Western Australia.

### Economics and Industry Standing Committee Legislative Assembly.

Submission by Vince Catania, MLA, Member for North West Central.

July 2017

#### Why the current high cost of regional airfares?

The current situation of high airfares across regional Western Australia is the obvious and expected result of monopoly or duopoly behaviour by airlines, which has been enabled by the State's piecemeal and uncertain approach to regulation.

Airlines, like any business operating in the commercial sphere, strive to maximise profits and deliver a better outcome for their shareholders.

Airlines practice **Yield Management**, which is a variable approach to pricing airline seats based on understanding, anticipating and influencing consumer behavior in order to maximize **revenue** and profits.

Without taking action to control airline behaviour, this situation is highly unlikely to change. There is no logical incentive or reason for airlines to reduce the price of airfares whilst there is an absence of any mechanism to force behavioural change.

Going forward, the West Australian State Government **must** recognise that the regional air transport network is an **essential service**, so important to the economic prosperity and social well-being of the residents of businesses of regional WA that it must take a tough, proactive approach to re-regulating these services.

#### Impact of State Government regulatory processes

The impact of the State Government regulatory approach has delivered;

- A deterrent to travelling to and within regional WA,
- Loss of important linkages between regional centres, such as the Gascoyne (Carnarvon, Exmouth, Shark Bay) with Geraldton,
- High cost to users of the services,
- Schedules, capacity and service designed by the airline to prioritise maximising profits over serving the public needs,

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- Greater usage of private road transport, which potentially contributes to higher levels of road trauma and family dislocation,
- Non-expansion of additional air transport services to destinations currently considered commercially unviable.

For too long, airlines in Western Australia have been allowed to capitalise on the relaxed approach by the State Government and Department of Transport to air travel regulation by driving up the cost of air travel to the demand tipping point, thereby maximising profits with no regard to the social and economic impacts across the state.

The State invests nearly \$1 billion dollars annually into the metropolitan transport system to ensure that the buses, trains and ferries that are essential to underpin critical linkages in and around Perth metropolitan area and outer suburbs are able to operate by offering fares that attract users, even though these fares are well below the actual cost of providing the service.

The State also regulates the delivery of additional essential services to regional and remote areas, such as power, water and communications.

It is concerning that consecutive Transport Ministers and State Governments have not seen the hypocrisy in applying considerable public monies to enable affordable, efficient public transport in the greater Perth metropolitan area, whilst not willing to provide the same level of transport subsidisation for a mode of transport that regional residents and businesses consider to be their only viable mode of public transport.

The regional air transport network is equally important to remote and regional areas. An apparent lack of will by the State Government to develop policy and regulation that would enable regional air transport users a similar level of equality of service has failed to provide a network that neither efficient nor affordable.

Affordable airfares and regional connectivity will stimulate the tourism industry, support small and medium business investment and growth in regions, enable families to travel for the purposes of visiting friends and relatives and provide communities with essential links to health and education services that may need to be accessed away from their home. The provision of linkages to other communities across the state and further afield is also a significant benefit to be gained from a re-regulated, efficient and affordable air travel network.

The current situation delivers exactly the opposite. There is a strong deterrent to families, friends and tourists to visit the area, businesses to invest in the regions and for families to consider regional WA as a viable place to live, work and play.

The increased usage of private road transport caused by unaffordable and inefficient regional air services is also of a growing concern. The distances that many residents, families or businesses may need to drive due to the lack of affordable or efficient air transport services is likely to have contributed to an overall increase in the incidence of driver fatigue related road trauma and fatalities across regional WA. This also has a multiplier effect on the provision and expansion of emergency medical and health services across regional WA which the State Government is required to fund.

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The additional time that employees of regional businesses spend utilising private road transport to access training and professional development opportunities has a detrimental effect on the viability of many small to medium businesses. This effect can also be applied to family units when the need to travel by private road transport for long distances ensures that families are dislocated for longer periods than would be necessary, causing higher levels of emotional and financial stress on regional families than those in the metropolitan area who have access to affordable, efficient and regular transport alternatives.

## Actions that the State can take to address the current issues

The State must:

1. Recognise regional air services as being essential to the economic and social prosperity of regional WA. So important that it cannot be left to commercial operators to decide service delivery and pricing levels. This could and should reflect the philosophy applied to the regulation of power, water, and metropolitan bus, train and ferry services. Inequities such as geographic isolation, market size and distance mean that normal commercial criteria will not deliver acceptable results.
2. Develop and apply a regulated scheme across the entire state's regional air transport network which will 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, and thus bolster airline interest in a total network delivery. There is no reason why this could not include presently un-regulated monopoly and duopoly routes such as Exmouth, Onslow, Karratha, Port Hedland, Newman, Kununurra, Paraburdoo, Geraldton, Kalgoorlie and Broome in any number of combinations with less robust routes.
3. Address airport infrastructure and security screening to remove any operating barriers by standardising structure and equalising fees across the state. The State Government should be seeking funding from the Federal Government to invest in the important upgrades to airport infrastructure that is required for airlines to offer a better customer experience for users and visitors.
4. Better understand the airline business, including: measuring airline profitability, understanding the commercial value of routes and networks, distribution systems, yield management practice, commercial contracts with major users of the services such as resource industry and government, and alternative methods of managing commercial arrangements, such as open book, fixed price or fixed margin contracting.

These actions will deliver affordable, efficient, and safe air services to and between regional centres and capital cities, to cater to all market segments in order to stimulate economic growth and improve the viability, health and social well-being of our regional communities.



**Vincent Catania MLA**  
Member for North West Central

Thank you for your consideration of these issues important to the residents, families and businesses of my North West Central electorate.

Yours sincerely



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Member for North West Central

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