REGAIR Submission 28
Recv'd 27 July 2017

Inquiry into Regional Airfares in Western Australia.

Economics and Industry Standing Committee
Legislative Assembly

Submission by Shire of Shark bay
July 2017

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Executive Summary

This paper is submitted on behalf of the Shire of Shark Bay, and refers to the regulated route of Perth to Shark Bay and Carnarvon, currently serviced by Skippers Aviation.

The State Government has signed a deed agreement ("the Deed") with Skippers to provide RPT air services between Perth- Carnarvon/ Shark Bay (Monkey Mia airport) and Perth-Northern Goldfields until 1 July 2018.

Regional West Australia relies solely upon the private, for-profit aviation industry to provide the critical linkages and logistics to our regions. Our businesses, communities, and families are reliant upon these airlines to deliver services that are fairly priced, safe and efficient.

At present, the high cost of airfares and scarce connectivity between regional centres is obstructing economic prosperity and social well-being in regional WA.

The state invests hundreds of millions of dollars every year into the metropolitan transport system – the buses and trains that are essential to underpin critical linkages in and around Perth metropolitan area and outer suburbs. The state regional air transport network is equally important however government policy and regulation has failed to provide the state with a network that is efficient and affordable.

The current airline monopoly and duopoly market services across the state have been left unchecked for too long.

Going forward, State Government approach to regulation must recognise the regional air transport network as an essential service, so important to society's well-being that government must take a tough approach to regulating the services, in a similar way that power, water, and metropolitan bus and train services are regulated. Inequities such as geographic isolation, market size and distance mean that normal commercial criteria have not delivered acceptable results.

In order to move forward positively, the State must develop and apply a regulatory scheme across the state's regional air transport network which will include stringent and transparent regulation of airfares, schedules, regional linkages and service levels. In Shark Bay, this means a Regulated Monopoly will replace the current form of lassiez-faire regulation, which simply does not go far enough to protect consumers from monopolistic behaviour.

The below summarises the issues raised in this paper in response to the evaluation matters A - F listed by the Standing Committee:

Issue 1: Monopoly allows the airline to maximise profits and reduce service levels.
Issue 2: Inadequate transparency and airfare pricing controls results in high air fares.
Issue 3: Ancillary revenue is not counted. True picture of profitability is not known.
Issue 4: Minimum Deed Requirements. Relaxed service criteria in last tender and subsequent Deeds delivered an inferior product.
Issue 5: Failure to address security screening limited the market response during the last tender
Issue 6: Airline industry knowledge within government is to be improved.
Issue 7: Dismantling the Coastal Network resulted in loss of 'network effect'.

Follows are solutions proposed by Shire of Shark Bay:

Solution 1: Build more effective controls and service criteria into the next tender and Deeds – move to a true Regulated Monopoly, including;

- Open book contracting to be used in future tenders and contracts
- Airfare pricing controls to be improved, focus to be shifted to average fares and not maximum fares
- Count Ancillary Revenue in total revenue
- Re-establish historical minimum service levels in the next tender, build these into Deeds

Solution 2: Address airport infrastructure to enable a wider range of aircraft and airlines to service the route in future.

Solution 3: Understand the airline business: re-establish the Aviation Industry Observer position, Solution 4: Build scale by re-establishing the Coastal Network.

These solutions 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 social well-being of our regional community.

At this point, I remain hopeful that this Standing Committee will listen and act and that the future will bring a move toward to building a better regional air network.

Yours sincerely,

Paul Anderson
Chief Executive Officer
Shire of Shark Bay

A, C and D Responses:

A. FACTORS CONTRIBUTING TO THE CURRENT HIGH COST OF REGIONAL AIRFARES;

C. IMPACT OF STATE GOVERNMENT REGULATORY PROCESSES ON THE COST AND EFFICIENCY OF REGIONAL AIR SERVICES;

D. ACTIONS THAT THE STATE AND LOCAL GOVERNMENT AUTHORITIES CAN TAKE TO LIMIT INCREASES TO AIRFARES WITHOUT UNDERMINING THE COMMERCIAL VIABILITY OF RPT SERVICES;

To avoid repetition of information, responses to the questions posed by the Committee at A, C and D have been combined. Seven key issues are identified and expanded upon below.

These issues and solutions are expanded upon in more detail in the following sections:

Issue 1: Monopoly allows the airline to maximise profits and reduce service levels

Aviation providers charge high airfares to Regional areas because they can. The State Government enables this.

On this route, a government protected monopoly is in place, with limited critical oversight and controls by DoT.

There is literally no incentive or reason for the airline to drive down the price of airfares.

Airlines, like any for-profit business, strive to maximise profit.

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

Until and unless Government changes their approach, this situation will remain.

The actions taken at the last State Government tender process created a monopoly and did not build adequate controls into the Deeds.

The outcome of this is unsurprising, and is as would be expected of a monopoly:

> In a monopolistic market, the monopoly has full control of the market. Since it has total market control, a monopoly sets the price and supply of a good or service. This characteristic makes it a *price maker*. A monopoly is a profit *maximizer* because it can change the supply and price of a good or service to generate a profit. It can find the level of output that maximizes its profit by determining the point at which its *marginal revenue* equals its marginal cost.
> A monopoly generally has one seller that controls the production and distribution of a good or service. This makes it very difficult for other firms to enter the market and creates high barriers to entry, which are obstacles that prevent a firm from entering into a market. Potential entrants are at a disadvantage because a monopoly has *first mover*'s advantage and can set prices lower to thwart a firm's entry. Since there is only one supplier and firms are not able to easily enter or exit, there are no substitutes for the goods or services. A monopoly also has absolute *product differentiation* because there are no other comparable goods or services. (Investopedia.com.)

The impact of the State Governments regulatory approach has delivered that described as above:

- High cost,
- Schedules, capacity and service designed by the airline to prioritise maximising profits over serving the public needs.

Solutions to counter this situation are to make adjustments and place more robust controls around the monopoly. These are suggested in the following sections.

Issue 2: Lack of transparency and controls results in high air fares

Solution: Open book contracting to be used in future tenders and contracts.

There is strong precedent for employing a range of open book tendering and contracting models. Such arrangements can be found commonly within the resources sector and also within the Federal Government air services contracts (see Section F, this document).

Most airlines, certainly those operating in WA, will be familiar with this concept and are likely to already have similarly structured contracts with other clients.

The resources sector and Federal Government are the major bulk buyers of air services in our nation. As such they hold extensive experience in regard to air services contracting. Tapping into their experience may be useful in drafting future Deeds, tenders and EOIs for state sole-operator Deeds.

An example of an open book model for a tender and Deed;

- The airline costs are transparent – accounts are tabled, listing all fixed and operating costs,
- Profit margin is negotiated and agreed between the airline and the customer – the State Government,
- The cost and margin then form the ‘peg’ for average fare targets,
- Controls are built into the Deed for CPI variations to the agreed fare, or extraordinary variations,
- Transparent reporting parameters are set, while providing profit margin protection for the airline and price gouge protection for customers.

By utilising the methods outlined in this section, monopoly routes are effectively open for competition each time they are tendered. Airlines will bid during tender time stating their proposed average fare price.

While it is of fundamental importance that the community receives value for money, particularly around pricing, it is of equal importance that the contracted airline is in a commercially sustainable situation. Open book contracts are not unusual and would serve both purposes: protect the margin of the airline therefore ensuring it is sustainable, while building controls into contracts to restrain average fare price increases.

Solution: Airfare pricing controls to be improved, focus to be shifted to average fares and not maximum fares.

Setting and controlling maximum fare, as has historically been the case, has little bearing over what the consumer actually pays at the transaction point.

Use of maximum fare as the measure that is monitored in the performance of in the Deed must be replaced by average fare.

The Deed should set a benchmark average fare as outlined above, the result of negotiation with preferred airline tenderers, and this should then be measured and monitored. The average fare set in the Deed can then be varied annually by the operator in line with CPI movements. The different fare levels and advertised fares are largely irrelevant to the actual dollar amount that on average, customers pay to use the service.

In calculating average fare: FOC tickets, industry tickets and any reduced fare staff travel or other non-commercial reduced cost travel tickets must not be included for the purposes of calculating the average fare sale price. Prize-winners travelling on FOC tickets or sponsored tickets are marketing expenses and / or the cost of providing community programs and must not be included in average fare calculations.

These tickets must be excluded when reporting the average sale price under the KPI or Route Performance Report, as they have the effect of unfairly diluting the average fare reported.

Secondly, the average fare paid by the public should be monitored, as distinct from that paid by corporate customers under contractual arrangements with the airline, as these can dilute the representation of the true cost to public of the airfare.
The buying power of the resource industry or larger consumers can result in this sector taking the lion’s share of the cheapest airfares while the community is left with access to only the higher yielding tickets.

To reiterate, lowest and highest published fare is not an indicator of what general public passengers are actually required to pay when purchasing airlines tickets.

Deeds that permit the Department to review average sales by fare type for 'reasonableness' (as has been in place in the past) are not appropriate. This clause is wide open for interpretation – the measure of 'reasonableness' is unclear, and one persons 'reasonableness' may not align with another's view.

By including an agreed average fare target in the Deed these matters are clear and no longer open for interpretation of the application of the clause or manipulation of fare levels inside maximum and minimums.

Importantly, the average fare target could be the result of a competitive tender and subsequent negotiation with the preferred airline tenderer. This is likely to result in a better deal for users of the services.

Significant changes in passenger numbers (upwards or downwards) will affect the overall total revenue amount achieved. Passenger numbers versus average sale price should be monitored on a continuous basis with the effect of changes to total revenue and the subsequent profit margin impact discussed, understood and addressed if necessary by permitting an increase in average fare or facilitating a reduction in average fare.

For example, a new resource project could bring an influx of new passenger business, which would then provide the opportunity to reduce the average fare while still maintaining profit margin. Conversely, an event that significantly reduces passenger traffic would require new analysis of the average fare, passenger numbers and profit margin equation.

Summary:

- Use open book contracting methods
- Set target average fare targets in the next Deeds and control it ('maximum fare' as used now as a monitoring measure is not an indication of actual fare charged).
- Link a CPI variation mechanism to average fare.

Issue 3: Ancillary revenue must be counted.

The total profit and loss picture for the airlines arising from the operation of the Deed is not accurate without the inclusion of ancillary revenue. This should identify and include revenue gathered by from:

- Car parking,
- change fees (currently $44 for an itinerary change and $66 for a name change, on bookings that will permit changes),
- freight carriage,
- excess baggage charges (currently $7.50 per kilo),
- pet carriage,
- fuel levies, if any,
- sales of merchandise, food and drink,
- credit card fees.

Summary:

Count all revenue streams as part of the profitability assessment.

Issue 4: Re-establish historical minimum service levels.

By relaxing the minimum criteria in the Deeds at the last tender round, the State Government removed access to connections with major airlines and other regional centres, frequent flyer program inclusion, and inclusion in standard airline Global Distribution Systems (GDS).

By waiving the requirement for inclusion in a GDS, State Government enabled Skippers to limit its distribution network and reduce its costs.

Resultant from this, tourism product to the area became largely invisible to travel agents without intimate knowledge of the region. This is obviously not ideal and in direct contradiction to the State Governments 2020 Tourism strategy which aims to enable WA destinations to grow their tourism sectors through industry and government partnerships

The features listed below represent the expectations of stakeholders as minimum requirements for any airline servicing the region under a government awarded license. These requirements are central to the strategy of achieving better air services for the region.

- Inclusion in a Global Distribution System and online booking systems such as wotif and webjet,
- inclusion in a mainstream Frequent Flyer program,
- relationships with domestic and international wholesalers, as well as major corporate travel agencies,
- arrangements with other airlines to facilitate through fares and cooperative activities,
- appropriately located and appointed passenger lounges,
- customer contact centre with extended opening times,
- minimal airline booking change fees that reflect the true cost of making the change,
- ability to establish monthly accounts with the airline as a form of payment,
- a waitlist service,
- a destination marketing plan to achieve route growth, developed and delivered in partnership with other stakeholders,
- commitment to a dedicated destination marketing spend that is quantified,
- employment of tourism / travel industry marketing staff within the airline.

It is worth remembering that all of these features were in place prior to the 2011 tender process undertaken by DoT. Additionally, there was no subsidy requirement at that time.

What is a GDS?

A Global Distribution System (GDS) is a software system used to enable travel agents to access live online airline seat inventory. GDS is the tool of trade that travel agents around the world use to find schedule information and book airline tickets for their customers. An airline that does not participate in GDS is largely invisible to travel agents and therefore that airline's destinations are also invisible to travel agents. CVQ and MJK currently are not in a GDS. Travel agents cannot sell tickets on Skippers Aviation flights in the usual manner. As there are many thousands of travel agents, this is simply not adequate as a replacement for inclusion in a GDS.

The basis for which DoT states GDS is 'not feasible' is unclear. Where does the figure of $1 million come from? There are many options for GDS to suit most budgets. Some airlines choose to piggy-back on larger airlines' GDS systems (such as Alliance and Air North with Qantas).

Airlines are extremely cost sensitive. If it were possible to thrive without a GDS then no airline would be investing in and participating in GDS as it would be a waste of money. Further, until 2011, airlines servicing the region did participate in GDS. There is no justification for DoT to continue providing concessions on this basic requirement.

Other airlines across the country have invested in GDS. This should be a requirement to ensure that the basic distribution infrastructure required to service the market is included in a fresh tender process.

Extract from DoT Position Papers:
The current RPT provider on the Coral Coast route, Skippers, does not use a Global Distribution System (GDS), which is generally accessed by international travel agencies and operators. The cost for implementation of such GDS system is estimated at nearly $1 million which, given the low revenue earned on the route, is not feasible.
Where possible, airlines operating on this route should have a GDS and easy passenger links to other airlines and flights operating elsewhere in Australia and internationally.

Further, DoT has chosen to use the words "*where possible*" when referring to the need for GDS and linkages with other airlines. The use of the term 'where possible' is extremely vague. How would DoT measure the level of possibility? DoT has not acknowledged the criticality to the region of future inclusion in an airline GDS and connectivity beyond Perth.

Issue 5: Failure to address airport security screening.

Airport infrastructure shortfalls in Carnarvon and Monkey Mia need to be addressed. Reluctance to invest in basic airport infrastructure and flawed security legislation must not be permitted to continue to be an eternal limiting factor to the economic prosperity of the region.

> Extract from DoT Positon Paper: Larger planes (over 20,000 kg) will only be able to land at Carnarvon and Monkey Mia after both airports are upgraded to accommodate for security screening operations. These works require substantial capital investment for which there is no current economic justification.

Further, DoT's claim is not supported by any references or studies outlining the case for rejecting security screening as economically not viable.

As advised to DoT, Gascoyne Development Commission (GDC) DC and Gascoyne Shires had been working to remove this barrier and at the time were confident that the economic case supporting the capital investment in infrastructure has been made. Further, feasible funding sources had been identified.

The State must address security screening and any infrastructure issues to enable a wider range of aircraft to service the route in future.

Issue 6: Limited knowledge of airline industry within government.

In past governments, under Alannah MacTiernan as Minister for Planning and Infrastructure (circa 2002) the State worked very closely with the aviation industry.

There was a position within Government of Aviation Industry Observer, reporting to Minister MacTiernan. The Observer built close relationships with airline management. As a result, there existed partnership between government and airlines, and a deep level of aviation industry knowledge and understanding within the Department of Transport. This level of knowledge does not appear to exist today in Government.

As a result, decisions on air services have been made by DoT based upon questionable assumptions.

Examples of this were provided in the document: Shire of Shark Bay Submission to Department of Transport, Reference: Review of RPT Air Routes in WA. Position Paper – for public comment, October 2014.

These are again provided below, for the information of the Standing Committee:

DoT Claim	Comment
There is no economic justification to put in security screening at Carnarvon Monkey Mia.	DoT has not qualified this statement with any economic justification study and there is no supporting analysis of any kind presented in the paper. Lack of security screening limits services to the area and reduces competition.
Airlines have little interest in the Carnarvon Monkey Mia route.	This statement did not align with comments from airlines at the time. Further, both Qantas and Virgin advised at the time that they had not been consulted with regard to the Carnarvon Monkey Mia route.
Airlines desired load factor is at least 75%.	There is no supporting analysis of any kind presented in the paper. Target seat load factor is influenced by many factors. Monopoly routes generally have a much lower break-even point. For example, Qantas recently advised that their target is 60%. See further comments below; Defining Profitability.
Carnarvon Monkey Mia is marginal / unprofitable.	DoT has not qualified this statement with any apparent economic justification study and there is no supporting analysis of any kind presented in the paper. In fact, there is evidence to support the opposite. At the time, Virgin (prev. Skywest) reported that this route was one of their best performing routes before DoT awarded the access to Skippers in 2011.
There is no economic justification for inclusion in Global Distribution System (GDS).	DoT has not qualified this statement with any apparent economic justification study and there is no supporting analysis of any kind presented in the paper. As the vast majority of airlines have invested in GDS, and it was in place prior to DoT's changes of 2011, the evidence suggests that this statement is incorrect.
GDS costs around $1 million to implement.	DoT has not qualified this statement with any references and there is no supporting analysis of any kind presented in the paper. There is a wide range of GDS providers with different options to suit different budgets. The vast majority of airlines have invested in GDS.
GDS should be a requirement 'where possible'.	The use of the term 'where possible' is extremely vague. What does it mean? How would DoT measure the level of 'possibility'?
Overall, travelers to and from Carnarvon and Monkey Mia appear to be satisfied with the quality and schedule of air services.	The survey that DoT refers to was not carried out independently of the service provider. Its results are in sharp contrast to the feedback provided by stakeholders during the December 2013 review carried out by Gascoyne Development Commission.
Industry, tourism and social needs are being met (Carnarvon and Monkey Mia).	As reported via multiple representations to DoT this statement is not supported by regional stakeholders.
Monkey Mia can only work in conjunction with Carnarvon.	There are multiple other options for Deed combinations. The statement as presented has the potential to mislead and may result in a distorted market response.
Lack of screening at Carnarvon and Monkey Mia has reduced the airfares significantly.	DoT has not qualified this statement with any references and there is no supporting analysis of any kind presented in the paper.
Demand for Carnarvon flights is unlikely to grow in the future.	DoT has not qualified this statement with any apparent economic study and there is no supporting analysis of any kind presented in the paper.

It is not difficult to see that using the DoT beliefs listed in the left-hand side of the table would deliver flawed outcomes.

Understanding and Defining Profitability

Importantly, the State must define 'commercial viability' and 'profitability and contain this within the Deed as a 'marker' and a peg to fare pricing. There has long been concerns raised about the marginal nature of the coastal route and its various forms. However, information on what these concerns are based on is not available. The following must be noted and incorporated into the State's thinking:

- **Define profitability.** How is the State measuring profitability and what level of profitability triggers the claim to be made that a service is not profitable or commercially viable?
- **Ancillary revenues** from car parking, excess baggage, cargo, credit card fees, reservation change fees and booking fees must also be considered in the profitability equation.
- **Profitability requirements will vary from airline to airline.** A long-term government contract offers very valuable cash flow and this can be taken to the bank to leverage building of the business in other areas. DoT must

understand and appreciate the commercial value of the Deed, estimated at around $40 million over a five-year agreement.

- Weighing profitability requires a network approach. Monkey Mia and Carnarvon are not serviced as a stand-alone contract. What is the net result from the network combination of all routes awarded under DoT control? . How much overhead cost is applied to these routes, is it reasonable?

- DoT has claimed in the past that 75% seat load factor is required to be profitable. The seat load factor as a measure of profitability varies from airline to airline and from route to route. It is influenced by type, size and value of aircraft, average fare, ancillary revenue, number of passengers, frequency of schedule, portion of fixed cost base allocated to the route and operating costs specific to the route Monopoly routes generally have a much lower break-even point.

The revenue value of a five-year monopoly licence to service Shark Bay and Carnarvon is somewhere in the region of $40 million coming to the airline. This is significant, and the State must recognise the commercial value of this opportunity by shifting the belief and narrative that there is no value or profitability in the Deed.

Issue 7: Dismantling the Coastal Network resulted in loss of 'network effect'

It does not make economic sense to pair two of the state's thinnest routes – Carnarvon and Monkey Mia – together, and then separate them from the rest of the state network.

It makes far greater sense to leverage and use the access rights to stronger routes by pairing them together, and thus bolster airline interest in a total network delivery.

The destinations need not be geographically located close by as the connection is a contractual one only exercised via Deed.

This is the network approach historically proven and necessary to ensure government meets its obligations to provide adequate services to remote and marginal areas of the state.

There are many possibilities of route combinations and past government policy was strongly against allowing airlines to just service the most robust routes ('cherry picking').

In 2002 / 2003, (then) Minster for Planning and Infrastructure Alannah MacTiernan undertook a review of intrastate air services. This review was sparked by the Ansett collapse, which left some regions at risk of losing their air services.

Minister MacTiernan was firm in her assessment that a network approach was essential, and that cherry-picking by airlines of the most attractive routes would create high prices and sub-optimal services.

As a result, the states less robust routes were divided into networks. Shark Bay was included in the Coastal Network, which comprised:

Coastal Network pre-2011: Perth to Albany, Carnarvon, Esperance, Exmouth (Learmonth), Geraldton, Kalbarri and Shark Bay.

This approach was also supported by the experts at the Centre for Asia Pacific Aviation (CAPA), working in conjunction with Tourism Futures Australia, who said in their commissioned report to WA State Government:

> Extract from Report: Airlines typically operate a network of routes. Only some of these routes will be profitable on a fully costed basis. However once these routes have been served it is in the interests of the airline owner to use spare capacity on routes that can at least cover marginal costs. This results in the well-known cross subsidy across routes. It is important to recognise that this type of cross subsidy is commercially sensible. It is not akin to a community service obligation. Cross subsidisation across routes is a common practice amongst airlines including those operating RPT services in WA. Such practices obviously benefit passengers on the subsidised routes. However, they also benefit routes that provide returns to facilitate the subsidy because overall aircraft utilisation is higher, overheads are distributed more widely and the overall profitability and sustainability of airline operations are increased. Reference: Review and Assessment of the Effectiveness of Air Services in Western Australia, Technical Report, For Department for Planning and Infrastructure November 2002.

The change of government invoked a change of philosophy and a move away from this network approach. The Coastal Network was largely dismantled from around 2011 and now operates as it does today, with Skippers, REX and Qantas providing services to parts the original network, and Shark Bay being serviced with Carnarvon by Skippers.

Today, the former Coastal Network comprises:

- Carnarvon and Shark Bay- served by Skippers
- Kalbarri – nil services
- Esperance and Albany – served by REX
- Exmouth – served by Qantas under monopoly
- Geraldton – reduced regional connections, served by Virgin and Qantas from Perth under duopoly.

The network philosophy recognises that economy of scale can deliver benefits to the consumer. It is understood that the philosophy above prioritises the aim to work toward achieving a 'free market'. However, arguably, that approach also results in undermining the so called 'commercial viability' achieved by the network approach.

Solution: 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 duopoly routes such as Karratha, Port Hedland, Kalgoorlie and Broome.

B. IMPACTS THAT HIGH-COST REGIONAL AIRFARES HAVE ON REGIONAL CENTRES- FROM A BUSINESS, TOURISM AND SOCIAL PERSPECTIVE;

On the Carnarvon and Shark Bay route, a government backed monopoly is in place and stakeholders report, with minimal exception, that:

- Services are not affordable,
- the needs of the tourism industry and business sector are not being met and this is obstructing economic development,
- due to high cost, social needs are not being met resulting in inability to visit friends and relatives,
- due to scarce regional linkages, needs for school and medical travel are not being met,
- future planning has not been adequately undertaken; in particular the state of the Carnarvon airport is a serious and urgent issue.

The Gascoyne Regional Development Plan (2010-2020) was designed by the four participating Shires to provide a strategic direction for the region up to 2020. This Plan documents 19 Desired Outcomes for the region. The ability to access safe, affordable, efficient, and effective aviation services is fundamental to achieving these desired outcomes. Without one, the other is unlikely to be readily achieved.

There is no question that air services are a driving factor underpinning successful outcomes in (at least) the areas of:

- tourism,
- health,
- education,
- industry,
- community.

Without access to safe, affordable and efficient air services; social and economic outcomes will be less than optimal. The drivers for these are listed below.

Tourism and Business

Business: The high cost of air travel is a deterrent to investing in business growth. The high cost of airline booking change fees does not recognise the nature of business travel. There is also a lack of booking options via corporate travel agents and lack of connectivity with other airlines. These are elements that add to the challenge of carrying out business regionally.

The needs of industry closely mirror many of the needs of the tourism industry. Ideally, air services will offer:

- inclusion in a Global Distribution System and online booking systems such as wotif and webjet,
- inclusion in a mainstream Frequent Flyer program,
- relationships with domestic and international wholesalers, as well as major corporate travel agencies,
- arrangements with other airlines to facilitate through fares and cooperative activities,
- appropriately located and appointed passenger lounges,
- customer contact centre with extended opening times,
- minimal airline booking change fees that reflect the true cost of making the change,
- ability to establish monthly accounts with the airline as a form of payment,
- a waitlist service.

Tourism: Air services must further enhance the international reputation of the Gascoyne region as an attractive tourism destination, enabling the region to achieve tourism growth in line with state-wide expectations.

Additional to the items listed above, the following is required by the airline to support tourism industry development:

- a destination marketing plan to achieve route growth, developed and delivered in partnership with other stakeholders,
- commitment to a dedicated destination marketing spend that is quantified,
- employment of tourism / travel industry marketing staff within the airline.

Health and Schooling

At the time of the last review, the Gascoyne region was serviced by the WA Country Health Service, under the Midwest Gascoyne Region division. Perth and Geraldton provide visiting specialist services throughout the region, while people in need of specialised medical care travel to Geraldton to receive treatment under the PATS scheme.

Also, there were 51 students living in the Gascoyne and attending residential colleges in Geraldton.

The Geraldton link therefore provided an important service to these groups of regular travellers.

Historically, there were up to four flights per week between Shark Bay / Carnarvon and Geraldton. This has been reducing steadily under the Skippers Deed since 2013, and now this important regional connection no longer exists.

During the DoT community consultation in 2013, there was no apparent acknowledgment by DoT of the importance of the links to Geraldton from the Gascoyne as a regional centre, despite representations made by stakeholders.

Community

Travel by air for the purposes of visiting friends and relatives (VFR) in the Gascoyne, and vice versa, is beyond the reach of the budgets of most. This has obvious impact on the desirability of living in regional WA.

E. ACTIONS THAT AIRLINES CAN TAKE TO LIMIT INCREASES TO AIRFARES WITHOUT UNDERMINING THE COMMERCIAL VIABILITY OF RPT SERVICES; AND

The study of economics, experience, and history all tell us that in a monopoly, prices rise. Similarly, while not strictly the scope of this paper (although relevant), a duopoly such as that seen on the Broome route between Virgin and Qantas will produce the same results. There should therefore be no surprise to Government that airfares are high across the state.

Until and unless Government changes their approach to regulation of the state airline network, this situation will remain.

Airlines, like most for-profit businesses, are interested in maximising profitability. Without adequate contract mechanisms to control pricing, it is highly unlikely that this will change.

There is simply no incentive for a monopoly holder such as Skippers to reduce prices. At the same time, there is every reason to monopolise the opportunity to the extent possible.

Please refer to earlier sections of this document to review actions that can be taken by the State Government to limit airfare increases without undermining commercial viability.

F. RECENT ACTIONS TAKEN BY OTHER AUSTRALIAN GOVERNMENTS TO LIMIT REGIONAL RPT AIRFARE INCREASES.

F.1 Christmas, Cocos and Norfolk Islands

Examples to be studied are the air routes between mainland Australia and to Christmas Island, Cocos Island and Norfolk Island. Each of these destinations is remotely located and has a small population, heavily reliant upon their air services to meet business, tourism and community needs.

These routes are managed by the Federal Government Department of Infrastructure and Regional Development. The exact terms of contracts are not available publicly, however, it is understood that a safety net subsidy is provided, such that if the airline does not receive an agreed revenue amount over a period of time, a top up subsidy is paid to the airline in order to ensure ongoing viability. Therefore, books are open, numbers are transparent and margin is agreed between the parties.

Resources Industry

Secondly, the government can look to private sector for examples of contracting air services. Resources industry in particular uses mechanisms that provide transparency and accountability. Companies including Rio Tinto, BHP and Woodside, for example, commonly use open book contracting and fixed price airfare contracting to purchase their air services.

Summary Conclusion

Stated very simply, the current situation of high airfares across regional Western Australia is the obvious result of monopoly and duopoly behaviours, which is enabled by the State's approach to regulation.

Without taking action to control airline behaviour, this situation is highly unlikely to change.

This paper outlines several strategies to deliver a better result for regional Western Australia. All of these are feasible and should not be considered to be outside the realm of possibility.

Going forward, State Government approach to regulation must recognise the regional air transport network as an essential service, so important to society's well-being that government must take a tough approach to regulating the services. This could reflect the way that the state's power, water, and metropolitan bus and train services are regulated. Inequities such as geographic isolation, market size and distance mean that normal commercial criteria will not delivered acceptable results.

On behalf of the community and the Shire of Shark Bay, I remain hopeful that we can work together towards a positive future arrangement for accessibility to our region.

Reference Documents

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