

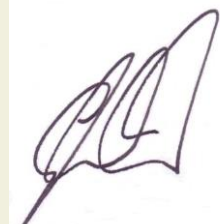
Dr David Worth
Principal Research Officer
Economics and Industry Standing Committee
Via email: eastkimberleymarketing@gmail.com

Dear Dr Worth,

Australia's North West Tourism is the regional tourism marketing body for the Kimberley and Pilbara regions of Western Australia.

Please find included a submission from our organisation into the Parliamentary Inquiry into regional airfares in Western Australia.

Yours sincerely



Glen Chidlow
Chief Executive Officer
28th July 2017

PARLIAMENTARY INQUIRY INTO REGIONAL AIRFARES IN WA

SUBMISSION BY AUSTRALIA'S NORTH WEST TOURISM

Australia's North West Tourism is the peak tourism marketing body for the Kimberley and Pilbara regions of Western Australia. It is a member-based, non-profit organisation, responsible for destination marketing activities that promote the North West region as a desirable holiday destination on behalf of its members.

The region has a highly desirable reputation as a tourist destination, with iconic attractions such as the world heritage Bungle Bungle Range, Cable Beach, Karijini National Park, the Horizontal Falls and the Kimberley Coast.

The region boasts tourism operators whose product is regarded as world class, and they provide a range of experiences including 5-star expedition cruising, staying in remote luxury lodges, extended four wheel drive touring, resort accommodation, a range of excellent dining experiences and outstanding examples of unique Aboriginal tourism product. The region has well-known brands with Broome and the Kimberley in particular having a high degree of recognition as holiday destinations of renown.

There are a number of airports within the region that receive RPT jet services, these being;

- Onslow (limited seats for public – predominantly charter services)
- Newman
- Paraburdoo
- Karratha
- Port Hedland
- Broome
- Kununurra

The driving distances from Perth to the above towns range from just short of 1,400kms to Onslow, to over 3,200kms to Kununurra. These considerable distances make aviation linkages a critical mode of transport for tourists looking to access the region. Nearly all flights into the region emanate from Perth so there is a heavy reliance on Perth Airport, not only for intrastate visitors, but also as a gateway for interstate and international visitors.

The cost of airfares into the North West is without doubt the largest impediment to attracting tourists to the region. This is evidenced in a number of ways including fare comparisons, consumer research, constant feedback from existing and potential visitors, and from domestic and international travel wholesalers. What is increasingly evident is that airfares within Western Australia are seen as far and away more expensive than what is generally seen in other states, or even to many international destinations. Whilst visiting the North West may be high on many people's bucket list, when comparisons are made to the cost of air travel, a North West holiday becomes not only unaffordable for many, but even unattractive for those who could afford it.

It appears the air services and the airfare structures in Western Australia are primarily driven by the requirements of the mining and resources sector, and whilst this sector has facilitated the introduction of flights to many WA regional ports, the model has not been conducive to providing a reasonable level of airfares on a regular basis for the leisure (and non-corporate) sector.

Consumer Perceptions

In 2015, TNS were commissioned to undertake a study of consumer perceptions of Broome and the Kimberley.

<http://s3-ap-southeast-2.amazonaws.com/wh1.thewebconsole.com/wh/7031/images/263103566-Broome--Kimberley-Perceptions-Research-Presentation-INDUSTRY-V---.pdf>

The report states that *"when it comes to the factor people are most put-off by, the cost of flights (relative to the destination experience) is the strongest barrier to visitation ..."* An excerpt from this report below quoting focus group participants is reflective of a broader perception of the cost of air travel across the Kimberley and Pilbara:

Identity & Perceptions of Broome and the Kimberley – PRESENTATION

TNS

Expense

All aspects (flights, accommodation & experiences) are considered expensive, but flights tend to dominate ... This is often a result of clashing expectations
"I was surprised by the cost of the flights. I knew the resorts would be expensive & I knew, ok, small country town so the food might be expensive ... but the flights when I went to book I thought 'is this for real?'" Per, FC, vis



Cost of flights can be off-putting from the start and can prevent further research

"The airline component is the one that kills it." Perth, GE, vis

Reputation for expense takes Broome out of the consideration set for many

The staff of Australia's North West Tourism regularly attend trade events both in Australia and in key international markets. These events provide the opportunity to meet with wholesalers and product managers who are selling North West tourism product to customers. Whilst the attractions of the region are well recognised and considered to be highly desirable, the conversation invariably shifts to the cost of access and how this is a significant impediment to attracting clients.

Some tourism operators in the Kimberley, who have made multi-million dollar investments in the region, have taken to offering fly-free domestic packages for their customers. They have found this to be the most effective way of attracting customers who would not travel to the region due to the high cost of travel. Even though their market segment would generally have the capacity to pay the airfares, they – and nearly every tourist considering a holiday in the North West – make a comparison of all the alternative holiday destinations to which they could more affordably fly. In many cases we know that they make the decision to take a cheaper alternative.

A significant amount of marketing is invested into attracting people to the Kimberley. One avenue of this marketing is through regular stories in the Travel section of The West Australian. A reader provided feedback to the Travel Editor after one particular promotion on Kununurra, that whilst they were attracted to the destination by the story, when investigating the airfares to make their booking to travel to Kununurra they decided to go to Paris instead as it was more affordable. This is representative of many similar comments made by consumers who realise that the cost of travel within their own state is more expensive than an overseas holiday. They feel they are not getting value if they choose to holiday in Western Australia, so they choose to spend their money overseas instead.

Even if there were to be a significant downward shift in airfare pricing into the North West, a considerable marketing effort would be required to overcome the widespread negative perception that is firmly embedded about the cost of travel into the region.

Airfare Comparisons

It is often said that airfares in regional Western Australia appear considerably higher than those enjoyed by travellers in other states. A comparison to similar routes on the East Coast provides some support to this statement. In the example below, the fare structure for the Qantas Perth-Broome route was compared to the fare structure on the Qantas Sydney-Cairns route. These routes were compared as they were flown by similar aircraft (Boeing 737s), were both from a capital city to a primarily leisure destination, and of similar distance (Sydney-Cairns slightly longer at 1,226nm, compared to Perth-Broome at 1,042nm). The table below provides an airfare comparison of the 10 tiers of economy class fares as at 1st August 2017;

Fare Class	PER / BME	SYD/CNS	
Y	\$ 1,208	\$ 684	77%
B	\$ 1,027	\$ 554	85%
H	\$ 828	\$ 438	89%
K	\$ 724	\$ 384	89%
M	\$ 624	\$ 344	81%
L	\$ 538	\$ 318	69%
V	\$ 476	\$ 288	65%
S	\$ 403	\$ 252	60%
N	\$ 341	\$ 223	53%
Q	\$ 275	\$ 193	42%

The percentage figure indicates the degree to which the same fare class on the Perth-Broome sector is higher than the corresponding fare on the Sydney-Cairns sector. For example, an M class fare is 81% more expensive on the Perth-Broome sector in comparison to the M class fare on the Sydney-Cairns sector. Even the cheapest fare from Perth to Broome is still 42% higher than the lowest published Sydney-Cairns fare.

When asked about such inconsistencies, airlines invariably state that one of the major reasons is the larger residential population in Cairns compared to Broome (approx. 150,000 versus 16,000) and that this provides a critical mass to support the greater availability of reduced fares. It might seem a difficult argument to prosecute considering many major costs such as fuel, crew salaries, catering, aircraft purchase or leasing charges should be very similar. If each route was able to fill the aircraft to the same level then the fares should be reasonably similar.

Airlines of course offer other reasons for the high cost of air travel in regional WA, and not just to Broome. The Pilbara ports also suffer from a lack of attractive airfares to support the growth of tourism and leisure traffic. Reasons include high airport charges, seasonal and directional factors affecting achievable load factors and lower than average aircraft utilisation (flying hours per day). These no doubt have an effect but it still seems difficult to sustain the comparison (or even fairness) of expensive airfares within regional WA with airfares available on other domestic (and international) routes, particularly for leisure travellers.

Compare the fares below from Sydney to Hamilton Island (HTI) - a slightly shorter route than Perth-Broome at 825 nautical miles - with a resident population of less than 2,000. These fare levels not only seem good value, but they perhaps explain why it is difficult to attract more visitors from the East Coast to Western Australia when the majority of Australian residents have these fares at their disposal.

Fare Class	SYD/HTI
Y	\$ 706
B	\$ 546
H	\$ 396
K	\$ 345
M	\$ 316
L	\$ 285
V	\$ 255
S	\$ 223
N	\$ 200
Q	\$ 179

It is evident to most that the fare structures in place in Western Australia are completely out of kilter with those enjoyed by other leisure destinations within Australia, placing the North West and towns like Broome and Kununurra at a considerable disadvantage to their competitors on the East Coast. It also makes it almost impossible to establish and grow tourism through the flying market to high potential areas in the Pilbara.

Aircraft on Regional Routes

Recent changes to aircraft fleets operating in Western Australia has seen Qantas in particular reduce the number of Boeing 737 aircraft they are operating here and providing more RPT services with the F100 aircraft. This has been enabled by the Qantas purchase of Network Aviation and the significant acquisition of F100 aircraft by this airline. Network was primarily providing charter flights to mine sites in the Pilbara using the older and smaller F100 aircraft (100 seats compared to 168 on a B737). Network Aviation has now received its Air Operator's Certificate to enable them to fly RPT services to most regional ports in the North West. The immediate impact has been the reduction in passenger (and freight) capacity on routes where these aircraft now operate. From an airline perspective, the use of smaller aircraft allows schedule and frequency to be maintained, but at lower cost and with reduced seats in the market.

The F100 aircraft are considered well suited to charter flying in WA. They are cheaper to purchase than the B737 and B717 (which Qantas also operates with 125 seats) and it is believed they have considerably lower operating costs. Virgin Regional also operates the F100 aircraft in regional WA (using previous Skywest aircraft and also F100 aircraft leased from Alliance Airlines for some RPT flying).

The F100 (and B717) aircraft have no Business Class and no inflight entertainment. Many would agree the inflight catering has also been downgraded over time.

The fare structure on routes to the Pilbara and the Kimberley ports, however, remains much the same as that based on the B737 aircraft. The savings generated by both airlines from the use of smaller and cheaper aircraft has not been passed onto the consumer.

The Impact of the Resources Industry

Many routes and the number of services into the North West are in place because of the mining and resource sectors. There is no doubt that this has provided aviation connectivity and frequency that would not have existed otherwise. Not surprisingly, the large mining and resource companies have also been able to negotiate directly with airlines to establish these routes, as well as schedules, capacity, and pricing arrangements.

However this underpinning of many regional WA routes by the resources sector appears to have led to a marked difference between these fares structures and those in place in other parts of regional Australia. Whilst these companies are able to negotiate considerable volume rebates on the expensive fully flexible published fares for travel on virtually any flight, the high published fare levels remain in place. But independent leisure customers only have access to "leftover" seats not required by the airlines' large corporate customer.

The airlines' automated yield management systems continually adjust (reduce) the availability of cheaper fares on sale recognising the number of corporate bookings by all their resources company customers. On many occasions the cheapest fare available to potential leisure tourists (or non-corporate residents in regional towns) has already been reset at an unattractive level. In peak tourism seasons of course the cheapest available fares can appear ludicrously high in comparison with leisure destinations in other places.

The tourism industry in regional WA is made up of many small business operators. The leisure (non-corporate) customers are predominantly independent travellers. While tourism may collectively generate the majority of passengers into towns such as Broome and Kununurra, the tourism "industry" does not have the same ability (negotiating power) to drive airfare pricing that will generate growth in tourism.

Although the Pilbara cities and towns are seen as more closely aligned with the resources sector, the same factors affect the access to more attractive airfare pricing for non-corporate customers which would hugely assist the developing tourism sector in this region.

State Aviation Strategy

The former State Government published a State Aviation Strategy in 2015. Tourism and Aviation Route Development forms part of this strategy and on page 68 the report identified that intrastate tourism *"is constrained by high airfares"*. The report also identified that *"for the State's visitor economy to continue to grow and prosper, WA must be competitive in growing airline capacity, ensuring the supply of reasonably priced air seats into and within the State remains ahead of demand"*.

The report highlighted that WA lacks a low cost airline, unlike other states including Queensland which has a strong resource focus. It states that *"Broome represents the best opportunity for a low-cost carrier to enter the WA regional tourism market."*

One of the report's actions was to identify, facilitate and develop additional gateways into the State outside Perth (such as Broome).

Whilst the report has acknowledged many of the problems around airfares in regional Western Australia, and has indeed provided some recommendations, it does not appear that these recommendations have been advanced in any way. It is recommended that many of these recommendations be elevated and given higher priority.

Current policy provides for State Government investment into the *marketing* of new routes, however there are no funds or general support to enable the *establishment* of a route. As airlines are averse to carrying little or any risk on route development, particularly to support the leisure market, it means this component is left to airports, local government and private enterprise. This leads to an ad-hoc approach to airline development in the State, and insufficient planning for how to truly grow the tourism numbers into regional WA. Consideration needs to be given to providing government support that fosters development of key leisure routes in a planned manner.

A Competitive Environment

The ideal (and proven) way to bring about lower airfares in a market is to have a robust and competitive commercial environment. The North West region of Western Australia is currently being serviced by two major airlines (apart from intra-regional flights between Broome and Kununurra with Airnorth, and between Darwin and Kununurra with the same carrier). These two major airlines do not appear to be actively competing for market share, or for growth in the tourism sector, and therefore there does not seem to be the downward pressure on fares that might normally be expected. This would suggest that seat capacity is being managed very closely in order to maintain yields.

The introduction of a third carrier – and most likely a low cost carrier as identified in the State Aviation Strategy – would no doubt bring about considerable change to the current status quo. This seems to be the most likely and reasonable way to bring about a re-calibration of the actual and perceived high cost of air travel in regional Western Australia.

Opportunities to Facilitate Change

The decision for any major changes in the current structure of airfares in WA to support and develop the tourism market lies principally with the airlines. The challenge for the State Government and other key stakeholders is to convince the airlines' senior management that there is long term value in pursuing a strategy to *grow* the tourism market in regional Western Australia, particularly on longer range routes such as those into the North West, where driving is not a feasible option for short-stay holidays.

The strategy needs to recognise that published fare structures in Western Australia are uncompetitive with routes of similar distance and characteristics, where over time the airlines have focused increasingly on the resource sector in WA as their key market segment. There are routes in this state where tourism needs to be recognised as the key market and the driver for future profitable growth. These routes require pricing structures that enable this to be a realistically achievable objective.

There have been times in recent years when airline scheduling and pricing supported the extension of the tourist season in the North West well into the shoulder periods. This currently does not appear to be the case. The opportunity for growth lies in extending what is currently a short peak tourism season in the region. This will also enable ground operators to spread their costs and revenue curve over a longer period, and enable more attractive pricing for their product.

No doubt the most successful and proven way of achieving lower airfares in any aviation market is effective and efficient competition between two or more airlines. During the days of Skywest Airlines there were three airlines operating into regional Western Australia, which seemed to have some downward effect on pricing.

The strategy to attract at least one low cost carrier onto regional Western Australian routes now appears the most likely to lead to lower airfares, along with a review of existing fare structures, which do not compare favourably with those in other parts of Australia.

Future of the Tourism Industry in the North West

Western Australia's current Tourism Strategy aims to increase the visitor spend within the State to \$12 billion by 2020. Many of Western Australia's most compelling tourism assets and experiences are found in regional Western Australia and if this target is to be met, it is essential that growing regional tourism visitation would play a significant role.

It is evident that the single largest determinant to growing regional visitation is the cost of air access to the more distant parts of the State. It is imperative that a more reasonable and competitive fare structure be established within regional WA to allow the fostering of the tourism industry – an industry that is one of the State's largest in terms of employment numbers, one that creates job opportunities in regional WA for many Australians, and one that also provides significant economic value for the State.



Glen Chidlow
Chief Executive Officer
Australia's North West Tourism
28th July 2017