

ECONOMICS AND INDUSTRY STANDING COMMITTEE

INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA



**TRANSCRIPT OF EVIDENCE
TAKEN AT BROOME
TUESDAY, 22 AUGUST 2017**

SESSION THREE

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 10.21 am

Mr PETER TAYLOR

President, Broome Chamber of Commerce and Industry, examined:

Ms JAEL NAPPER

Chief Executive Officer, Broome Chamber of Commerce and Industry, examined:

The CHAIR: On behalf of the committee I would like to thank you for agreeing to appear today to provide evidence in relation to the committee's inquiry into regional airfares. My name is Jessica Shaw and I am chair of the Economics and Industry Standing Committee. I would like to introduce the other members of the committee. To my right is deputy chair Sean L'Estrange, member for Churchlands; Stephen Price, member for Forrestfield; Terry Redman, member for Warren-Blackwood; and Yaz Mubarakai, member for Jandakot.

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. Thank you very much for your submission to the inquiry. Before we begin our questions, do you have questions about your attendance here today?

The WITNESSES: No.

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

Ms NAPPER: Just very briefly. From our perspective looking at the cost of doing business in Broome surely is something that concerns us. That on top of the impacts of our tourism industry and understanding the fact that every business in Broome in some way trades on tourism. From our perspective there is significant weight on the cost of getting in and out of Broome, so we appreciate the state government letting us have this opportunity to speak forth. We certainly are not here to bash the airlines. This is not about us trying to establish a division between the airlines. Certainly we do not profess to be specialists in the pricing models or the business model of the airline industry. We are hoping to see out of this some kind of innovative, clever solution to how we truly can support our tourism industry up here and support our local residents in doing business.

The CHAIR: Thank you. One of the terms of reference asks us to consider the impacts that high regional airfares have from a business and tourism perspective. Could you give us a bit of colour and shape around the impacts on the Broome community, particularly local businesses but also tourism-related businesses as well?

Ms NAPPER: Let us not go to freight at this point, but certainly just passengers, one of the constant resounding issues in doing business and the cost of the airfares is training. Training and business development opportunities that especially franchisees up here often have to forgo unless they want to pay those significant costs. When you look at the franchise business model, one of the major benefits of that business model is having access to the training and the development. So many of those businesses up here would just not participate and their staff would not participate. There certainly is an element of our connection to Perth on a commercial level is very high. Going down and having key supplier meetings is just something that is part and parcel of having a business up here. Those are the two major things. Going back to the previous witnesses here, certainly the businessperson is very rarely able to book how many months in advance—you have to be

responsive—and they just have to fork out. We recently conducted a survey—we do a yearly business confidence survey—and we asked the question of businesses: how much money have you spent on airfares in the last financial year? Of the 32 who responded, it adds up to an average of \$20 000 per business.

The CHAIR: Per year?

Ms NAPPER: Yes. It was actually just under \$2 million—\$1.8 million was from one education institution. Let us look at that as another kind of inhibitor to us living, doing business and going about our daily lives in Broome. So, \$1.8 million from one training institution. It is an anonymous survey, so I cannot assume I know which one that is. Of the rest of the businesses, there is, you know, just under \$700 000. That is a tiny, tiny sample of what we are dealing with. When the cost of living is a little bit higher up here, to have to put that into your equation is very frustrating.

Then you go to the tourism side of things. You look at that weekend when we had an extraordinary circumstance that the school holidays overlapped and Cable Beach Club was down 50 rooms on that weekend. That is just one example of the accommodation providers who also feel the brunt of high airfares. All of a sudden we have less people coming here and that dips our economy.

The CHAIR: You mentioned setting freight aside, would you like to expand on that a little more?

Ms NAPPER: We did not go into freight. We were particularly concerned in doing this research about passengers, so physically flying, but freight is an ongoing topic of discussion amongst our local business community. The cost of bringing freight up here and the logistics of it, the timing. Getting freight on an aeroplane is difficult, because often the freight will have to be pushed aside for passengers because it is overweight. I personally experienced a situation where my sister who was on standby was pushed off the flight because it was too full of freight. We have pretty tight windows of time that businesses can get their goods up here, and that is an additional kind of frustration—not so much expense, but the time and the logistics of it.

Mr TAYLOR: Although it is not a critical issue, just one example is that we very rarely get the daily papers up here anymore. Once upon a time, they would arrive every day. We might get two or three arriving on any particular day now. It is just an example.

The CHAIR: You are Broome and Derby CCI —

Ms NAPPER: We are just Broome.

The CHAIR: You are just Broome. I did want to explore some issues around Derby, but I will hold over until we hear from the shire, which is our next hearing.

Mr D.T. REDMAN: I think everyone has eloquently described the problem and the challenge particularly for those short-term fares. What is your suggestion for action? Government has a certain amount of levers that it has at its disposal. It is a player in the market and it has a lot of government traffic. How well it leverages that is perhaps a question in there, which is one option that has been put to us as well. What is your suggestion in terms of the level of intervention government should apply and what is the nature of that intervention?

[10.30 am]

Mr TAYLOR: I think one of the things that we have seen looking at some of these issues is that perhaps each of these routes have their own particular problems, issues and potentially solutions. Solutions that we may have here might not necessarily transfer to another route. Certainly one of the key things—I have listened to others talk about cabotage and the lack of competition—that we think would make a huge difference is if there was, obviously, a strategic review on having a second

international gateway into Western Australia. Naturally Broome thinks it would be ideally suited for that. But that is easier said than done.

A number of committees over a huge number of years have looked at ways of actually achieving this, and there have been talks obviously with overseas airlines. One of the key things is that to be able to achieve that—to actually start an untested market or an untested route—is that no airline either nationally or internationally appears to want to take that risk solely. The only way around that in our view is that there needs to be an almost whole-of-government strategic approach establishing a new gateway, which ideally should be Broome, and then obviously have not only the marketing support to establish and sustain that route, but also the underwriting of it to an extent to de-risk it for a new player. That way, bringing in X number of international people and taking people abroad through this new gateway is going to increase the demand on the domestic routes. If we can increase demand on the domestic routes, we will increase competition on the domestic routes. Listening to some of the others, you would not call it a market failure on our route, but it is a duopoly and there certainly is not a chance for any further competition given the current numbers of people who are flying here at the price points that are available.

Mr D.T. REDMAN: We are going to be in Karratha to talk to people tomorrow. I would imagine that one of the lead points made by the Karratha chamber of commerce would be: what about Karratha being an international airport and the gateway into Western Australia? Any comments about managing the competing interests of regional Western Australia in those interests?

Mr TAYLOR: I do not think there is any competition whatsoever!

Ms NAPPER: I know where I would rather land as my first port of call to the country.

Mr TAYLOR: There would be no more spectacular entry into Australia than flying into Broome over Cable Beach or Roebuck Bay and landing in the heart Broome; that says it all, does it not?

Mr S.K. L'ESTRANGE: Jael, I will pick up on the point you raised earlier about looking for an innovative solution to reducing airfares. Has there been any effort by different stakeholders around Broome—mining companies, airport, airlines, businesses, tourism operators, Indigenous communities—to look for an innovative solution?

Ms NAPPER: Not a collective one, admittedly. I think there are motivated individuals. We have certainly sat down with the shire, with community action groups, with accommodation providers all at the same table and discussed what we can do to think smart, not hard. I think we have to be realistic as a tiny destination about the amount of clout that we do not have. I do not like to think that we would be so silly to think that we can just lobby our way into getting cheaper airfares; that is just not the reality of the situation.

I made contact with iPREP, which is the conglomerate of students based out of the universities in Perth, and made inquiries about getting a couple of their researchers to have a look at the statistical data of the cost of fares, the timings to come up with some kind of innovative technology that we can utilise as a recommendation. That is very cheap. You are not looking at big consultancy here; it is a very cheap and almost fun project that we could look at—not a hackathon, but they would have six weeks to come up with a solution.

I do not think that we on the ground have that kind of insight or ability to really design something, as James will probably say later, some kind of Skyscanner app that plucks out the cheap airfares, because they are out there. You can get the \$200 airfares, but good luck if you can find them; it is like looking for a needle in a haystack. An example of that is when I saw that Qantas was on sale—great, I was going to go home to Brisbane; my kids have not seen their cousins for the two years that we have been living here—but I could not find those fares. For me and three kids, it was \$3 800

at the cheapest that I could. I thought stuff this, and I booked via Darwin. I thought that I would drive to Darwin. It was \$1 300 return for five of us, because I will now take the husband along. Let us look at where those flights are and how we can prop them up so that all industry can use them and we can maybe just try to cheat the system a little bit by being smarter about how we book. That does not necessarily help the small business community who have no choice but to travel on certain days. But I think that is something that could be very broadly adopted.

Mr TAYLOR: There are collaborative models out there that have worked. Some years ago when I was working for a mining company out at Koolan Island, the mining company in conjunction with the Shire of Derby basically established flights between Perth and Derby Airport. It was done on the basis that the mining company would guarantee to take X number of seats on the plane on a take-or-pay basis. That gave the basic revenue to underwrite that service on X days a week. Obviously, the balance of seats on the plane were available at similar seat fares to the community of Derby. That worked very well for a number of years until basically the mining industry went into decline and then baseloads disappeared as did the flights.

But those collaborative models are there and they can work very well. I think one of our colleagues will talk a bit more about some opportunities that have been identified where we can perhaps get some of the key industries and the key users together and have a look at what the purchasing power of those people working together may be.

Mr S.K. L'ESTRANGE: I suppose there are two different types of traveller. You are going to have community travellers who need to get Perth for whatever reason, some at very short notice—funerals, things like that. Then you have your leisure tourist travellers. Have you tried to separate those two problems and look at it from a community perspective to try to attract people to live in Broome as residents and have you looked at it separately for tourism? Have you looked at them differently or do you just group it all up together?

Ms NAPPER: Yes, we have looked at it differently. One of the recommendations that we put in our submission was about a code for people who live in Broome. They do that in North Queensland. I understand there are different circumstances. We have one travel agent in Broome and she knows—she has been here for a long time—the ins and outs, and I take her recommendation with weight. She said that a Broome resident could be given a code much like an oil and gas company or much like government who would book under these codes, and that would guarantee a certain price point. Absolutely that would be broadly adopted by the community here and used. Mandatory on our part is that there would have to be an audit on the individuals trying to access that code, but that can be overcome with some basic identification and things like that.

That does not solve the problem for tourism, though. There are two challenges that we face. We truly believe we live in the most beautiful part of the world, but the isolation in this day and age is very hard to cope with and certainly the cost of coming and going is very hard. That would fix that problem, but we are a traded economy, mainly of tourism. Until we really are able to compete on a national scale, we are just looking Broome to Perth at the moment; let us not even go interstate. Perth to Broome is a major supplier of our tourism and we just cannot compete at this price point. When we look at the flow-on effects to our accommodation providers, our restaurants—the season is getting so short now; it is probably six weeks of the year that people are really, really raking it in. When you look at the ABS data and accommodation figures, even at the peak of our season, we are only reaching an average of 80 per cent capacity. There is still 20 per cent at the highest of high that we are not realising the potential. Anything on those shoulders is just—you know—really hard.

Mr D.T. REDMAN: What is your view about the perception versus reality? I went for a walk this morning and I saw about four seaplanes take off. I know what it costs to get a berth on one of those

to go and see the Horizontal Falls. That is in a price point that I would have thought that people would not be thinking too much about their airfare between here and Perth. Is the perception worse than the reality? Is that an angle for marketing?

[10.40 am]

Ms NAPPER: I think we have a massive perception issue. James will talk to you about the data and research about the issue of the perception of Broome. But there is also a reality in that if you are going on a holiday and you go, “I’d love to go to Broome or I could go to Bali” and you look at the price point, you have to really want the Broome–Kimberley experience and save up for it and then you come here. There is very high price point of the traveller who comes here.

The one industry which is doing really well is the boutique cruises—\$30 000 a ticket and they are booked out until the end of next year. So it is great that we are a premium price point holiday destination and we really need to perpetuate that possibly a little more effectively with our pearling and other products. But those opportunities are probably few and far between outside of the mass tourism that, say, far north Queensland really thrives on. Yes, I think destination marketing is a really key thing, but we are clumped with the Pilbara, in the Kimberley on that front, and possibly that is why Glen gave his apologies! But we get super frustrated because the product that we have is, we believe, very different and very unique so why we cannot have a focused Kimberley strategy and something really potent on that front that we can collaborate on—I think it is a no-brainer.

Mr D.T. REDMAN: Just going back to some comments you made earlier, you talked about a couple of things that interact with the business community, being the cost of training and supply, which is two key things. A second ago, you touched on staff retention. If you pursued that code idea, or have something that picks out the local segment—because governments have most interest with local residents and meeting what you might call a very basic service need—if you picked out that segment and had strategies for getting cheaper airfares for the local segment, how much does that flow through to the business community in terms of staff retention and schooling and all those other things that people make decisions on to live in places like Broome?

Mr TAYLOR: There is no research on that so we would only be making an educated guess, but obviously if you are working for a particular business there, if you could guarantee a lower airfare out of here once or twice a year, that has to be a plus for anyone working long term in Broome. Broome’s liveability improves and desirability improves.

I just come back to your question about the perception of flights. At the moment if you are living in Sydney, Perth or Adelaide and Broome is on your bucket list, in terms of airfare costs, Rome, London and Los Angeles might be on your bucket list and they are probably marginally cheaper to get to, so that is where that perception is actually reality. Our competition in terms of attracting those bucket-list tourists is international.

Mr S.J. PRICE: What do you think is a reasonable airfare?

Mr TAYLOR: The TNS report said out of Perth, at a price point of \$700 return, that became a significant barrier, but once the price came down to \$450 return then it was something people considered coming up for weekends, that really was an attractive price point based out of that survey.

The CHAIR: In your submission, you talk about your firm belief of the Broome chamber that the reason for the unusually high airfares is the lack of competition on the route and you suggest that the two operators at the moment are in a comfort zone where there is no threat of disruption and they have strangely reflective fares. This is an unregulated route and there are regulated routes where the fare classes are settled and the pricing is settled at one extreme, but there are other

forms of interventions that the state government might make around disclosure of information and a bit more transparency around how the airlines set their pricing. Do you have any view on whether there is market failure here or whether there may be a case for regulation or some sort of enhanced state government intervention?

Mr TAYLOR: I guess as a chamber of commerce and industry, our default situation is competition rather than regulation will provide the best outcomes in the long term. But connections by air are an essential service for regional Australia and we also recognise that there may be limited cases for government intervention in terms of protecting routes or regulating routes. That would, I guess, as a normal response be something that we would necessarily support. However, your suggestion in making, I guess, the information far more transparent has some merit—sunlight is often the best disinfectant and certainly with public gaze in these areas and government gaze in these areas, it can produce change.

The CHAIR: I understand the point, and I used to work for the WA chamber of commerce so I am very familiar with the baseline assumption that competition always leads to lower prices. It just seems to me there are high prices and there is something going on here that is called competition, but I guess I would question the degree to which competition is here sufficiently in placing downward pressure on prices.

Mr TAYLOR: I would agree that obviously there is a duopoly here and obviously competition is not working. I am not sure we could call it an absolute market failure, which would require huge government intervention, but I am hoping out of this inquiry there will be some strategies in place that can help drive those prices down without over-regulating.

Mr S.J. PRICE: Were things much different when Skywest was flying here as well?

Mr TAYLOR: In my view, yes, because we basically had three independent airlines so there was far more choice, although most of them tended to have parallel schedules within a short time frame, but that is actually a cost-reduction measure rather than a form of collusion. Certainly, there was a far greater range of prices available there. But I think during that time, given the demand in Broome, that was a time when we saw a few more flight cancellations, which were disruptive at that time. It comes to my view that if we can increase the demand, we will then increase the competition and that will drive prices down.

Mr D.T. REDMAN: What has been your experience and, I guess, the business community or Broome's experience in confronting the airlines and saying, "Righto guys, let's get around the table and see what we can do to bring some innovative solutions to grow the pie" as a strategy for getting more traffic and therefore downward pressure on prices? Have they been enthusiastic to be part of that or are they less than enthusiastic and a dark cloud sits over them that you cannot see through?

Ms NAPPER: Qantas do an annual stakeholder meeting where they invite industry to sit around the table with them and talk about the year ahead. Virgin do not do that. We embrace the opportunity from Qantas, but really nothing ever comes out of it. There was one that happened at the beginning of last year and there was some excitement about the idea of mini charter flights that would be underpinned by accommodation providers. It would guarantee a price point that they could then go to market with. Once again, James will talk more about this. James Brown from the leadership group and Glen Chidlow from ANW spent months and months in negotiations with Qantas until the point that really what happened was it was not going to offer industry any extraordinary circumstances and it very quickly fizzled. It just was not worth it. Whilst I believe that they like to keep Broome happy, there really is no result out of those consultations.

The CHAIR: Do you think there was a strategy there to just delay the entry of a potential competitor to their service? It seems to me that there is a bit of a threat of another form of transport coming in, in competition with Qantas, so let us take you down the path of an eight-month negotiation so you move away from that competitive solution and then, at the end of the process, just table exactly the same airfares that you were being offered that drove you to look for other solutions.

[10.50 am]

Ms NAPPER: To be honest, I do not think that. I think what happens is you have one employee who is employed to keep Broome happy. I am sure that, in suggesting that, there would have been some motivation to try to come up with an innovative solution that both fits their business model and supports industry here, but as they get down into the Ts and Cs and the minutiae of what that is, it does not become within the remit of that one individual and his job.

The CHAIR: I am not questioning the motives of the individual involved at all.

Ms NAPPER: But I think that is where it gets lost in translation, because it goes to a head office based somewhere else that is completely disconnected from us physically and it becomes back to a commercial rationale. I do believe they make a good profit on this route; that is my personal belief. They say that they have to because that underpins their operations through the wet season and that we are lucky that they provide us, and we are certainly very grateful for that. But in my mind, and sometimes I think I am very simple, because it does not make sense to me that in the highest demand—I have been explaining the business model for the airlines a lot, but even still, when you read the quotes from Qantas and Virgin about how unviable the regional WA flights are now that there are less FIFO, then once again, I say, “Well, hang on; you’re saying less FIFO, but at the time that we have a lot of FIFOs flying here, we all of a sudden have no seats available and the prices are the most expensive they’ve been for a long time.” What is it? Do we need more FIFO? Is that going to drive down the prices? Is that going to change the business model? Is that going to make it more viable, because we are not seeing that? It does not make sense, so we get frustrated that we keep going around this garden path of, well, really, the bottom line is you have to make a profit somewhere to underpin where you have to drive down prices for the competition, and that really is largely on the east coast. That is just what I think.

Mr S.J. PRICE: But that business model of, I suppose, almost taking advantage of opportunistic times during the year to increase prices is a business model that even resorts apply as well, so is it all right to apply it in one part and not the other?

Ms NAPPER: I do not know, to be honest. I understand the reality of it, but at the same time, where is the practicality of it? They have put in smaller aeroplanes that are more efficient to run; why does that not drive down the price a little bit? They would say that there is not market viability here, but when we cannot get on a plane for four days in a row, surely that suggests that there is a business case to at least put on a bigger aeroplane. I appreciate what you are saying. Accommodation is accommodation; they do not have the flexibility in their business model to be able to release more rooms or to add an extra hotel. It is what it is; once you are booked, you are booked. The flight situation should be more flexible in responding to market demand.

Mr S.J. PRICE: Yes. That response is exactly right, and that is part of what everyone is trying to understand—the fact that an airline has a number of different options available to it, so what becomes its motivation for ensuring that every plane is full with a reduced capacity, and you have to wait four days to get a flight out of here, and they know that. Is there a social obligation tied up with some of these licences that we apply or give out to airlines to actually operate in some areas around the country, in the regional areas especially?

Mr S.K. L'ESTRANGE: Given that there is a federal tourism inquiry going on concurrently with this, have you had any involvement in that inquiry, just as a matter of interest?

Ms NAPPER: Yes.

Mr S.K. L'ESTRANGE: Have you sensed from that inquiry whether they are looking for commonwealth solutions to the airfare problem?

Ms NAPPER: They actually brought up cabotage yesterday, which we found interesting. We had a moment with the Prime Minister recently where we brought that up. We understand that that is a federal issue, and that is being looked at, but they actually brought it up with us, so it is something that they are looking at. The north is a major focus for development and progression. So, yes, I believe so, and we will follow up with them. We get frustrated here, certainly on a federal level, but even to a certain degree on a state level—the vision for the Kimberley. We have the blueprint, we have the growth plan—almost—and all these kinds of grand-scale visions and infrastructure. We just need small wins.

If you bring down the price of flights, all of a sudden our tourism reaches capacity, our businesses start to save \$20 000 a year in operating expenses, we start to have probably slightly better liveability and it releases this pressure and then we grow organically. We do not need these big trigger points of major, billion-dollar infrastructure in our mind; we just want small-scale wins that allow Broome to organically and sustainably happen, as will the rest of the Kimberley, in a way that really fosters our belief in the tourism industry and growth and organic development.

The CHAIR: You mentioned in your submission the drop-off in tourism—an 18 per cent decline in visitation from 2013 to 2016. What contribution do you think high regional airfares has had to that outcome?

Ms NAPPER: I would say most. What would you think?

Mr TAYLOR: Absolutely, because it comes back to that when people are planning a holiday when they are sitting in Perth, they look at lots of options of where they want to go. Certainly, particularly in the last eight or nine years, the competition from low-cost international flights to places like Bali, Phuket and other Thai resorts are far more competitive than the flights up here, so there has to be an extra special desire to come to Broome if you are looking for a break, other than going to South-East Asia. If we could match those airfares somehow, obviously our tourism would increase significantly. That is the only way I can answer that.

The CHAIR: I will proceed to close today's hearing. 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.

Hearing concluded at 10.58 am
