

# **ECONOMICS AND INDUSTRY STANDING COMMITTEE**

## **INQUIRY INTO REGIONAL AIRFARES IN WESTERN AUSTRALIA**



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

### **SESSION FIVE**

#### **Members**

**Ms J.J. Shaw (Chair)  
Mr S.K. L'Estrange (Deputy Chairman)  
Mr Y. Mubarakai  
Mr S.J. Price  
Mr D.T. Redman**

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**Hearing commenced at 1.05 pm**

**Mr MICHAEL LEAKE**

**Manager, Habitat Resort Broome, examined:**

**Mr WILLIAM REED**

**Director, Allure South Sea Pearls, examined:**

**Mr JAMES BRUCE BROWN**

**Chair, Broome Tourism Leadership Group, 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 that you might say outside of today's proceedings. Could you please introduce yourselves for the record?

**Mr BROWN:** James Brown. I am the managing director of Cygnet Bay Pearls and the chairman of the Broome Tourism Leadership Group.

**Mr LEAKE:** Michael Leake. I am the manager of the Habitat Resort and secretary/treasurer of the Broome Tourism Leadership Group.

**Mr REED:** Bill Reed. I have been in Broome for more than 40 years. I am the principal owner of Allure South Sea Pearls.

**The CHAIR:** We have had several different badged-up submissions provided by different tourism providers. Thank you for your submission to the inquiry. Before we begin our questions, do you have any questions about your attendance today? No? Would any of you wish to make a short opening statement before we begin our questions?

**Mr BROWN:** I would like to if I could, please. To give you a bit of a brief overview from a tourism perspective, some of what we will present today are materials that have been generated from the Broome Tourism Leadership Group over the last couple of years and others are views or opinions that I have formed from being in a privileged position as the chairman of that group in that time. Broome has obviously demonstrated strong investment and growth in tourism over the past few decades. Aviation has been an enabler of that key to the success of the tourism investment in the town, and today I think it is quite clear to see the hundreds of millions of dollars of invested capital there is sitting in Broome. Aviation has also demonstrated some fairly significant impacts on the industry and there are risks around it. Two that come to mind are the pilots' strike and then the collapse of Qantas, which had very serious impacts on Broome tourism.

**Mr REED:** The collapse of Ansett.

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**Mr BROWN:** Sorry; Ansett. Qantas is still going, I think! Additionally, the entry of Virgin into the marketplace as a low-cost carrier had an astounding result as well in terms of market forces reducing the cost of airfares to Broome. However, that instability that that created, or at least that competitive force, seems to have stabilised, and I think you are quite well informed about the status of the current situation.

The other thing that has happened, of course, is the onset of a low-cost carrier model and how that works with tourism investment and destinations. Unfortunately, as the aviation industry has modernised and these new business models have formed, the smaller destinations such as Broome no longer easily fit the aviation sector's profiles for low-cost carriers in the new direct areas. Unlike many destinations in the state, Broome has demonstrated a past history of tourism investment and growth both pre and post the FIFO effect or the mining boom that has had some impacts in the rest of the state, or in regional areas anyway. Broome and the Kimberley are surely one of the key tourism assets in the state, along with, obviously, Perth and the Margaret River region.

We believe that we are part of that key industry driver. Whilst tourism is growing steadily in other regional areas, I think it is very important to note that if there is an uplift in tourism, as the state is wanting to achieve in the wake of the mining boom, Broome has the ability to be part of that solution to take numbers very rapidly with underutilised assets here and a track record of being able to grow with that market demand quite rapidly.

[1.10 pm]

In terms of awareness and brand and perception, there has been some discussion around that previously. The Broome tourism industry obviously outdates the internet and the digital world. Prior to that, when the business model was simply product through wholesale markets and travel agents, Broome actually had a greater awareness in the east coast markets than Perth did from a leisure sector. The onset of the digital world has certainly changed the entire business structure and it has created a serious challenge, I think, for tourism destinations now, not just Broome but probably all relatively small resourced regional destinations, to compete in that space. One of the other issues with the online world is the way that the commission systems and such work. Inevitably, what has happened is that now travel agents around the country are far more incentivised to actually sell international routes than they are domestic routes, with commissions on a Broome ticket being as little as \$3 or \$4. So, basically, our travel industry is now more incentivised to actually send people overseas than they are to send them domestically.

A question was raised earlier: why has Broome softened in the last few years? The peak of the tourism industry in Broome was in 2007 to 2009. To summarise that, I would suggest a range of issues. That digital world issue for the business model is certainly one of them, as is the onset of the low-cost carriers making Broome's relatively stable price over that period of time appear less competitive in the marketplace. The increased cost of operating any business in regional WA has been firmed up by the tourism sector, so our cost of operating has gone up significantly through the mining boom and cost of living and transport and associated costs.

The impact of the James Price Point process on Broome's tourism brand, I think, is a loss the town does not necessarily like to talk about too much. It certainly did have an impact, not just an impact from the consumers' perspective, but also from the industry's perspective. Our relationship with government for many years was strained in the wake of that and prior to that the industry was basically being told to prepare for an oil and gas world, so a lot of things were stalled. Key investments were stalled, such as the Cataby track, which is now being finally committed to. But even investment into accommodation houses and such and other product development in Broome was stalled in the wake of the uncertainty around what your future prospects are going to be.

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The opportunity, as I see it, for the state government for Broome is an intriguing one. The strong focus that the state government has had on minerals and oil and gas in the last 10 years or so has been, I do not think, hidden from anybody; it is quite obvious. Yet it now looks to other industries to build this growth in the wake of that, and tourism is the obvious one that can give us that in the short to medium term. Whilst it is quite clear the demonstrated effect of the growth of oil and gas and the minerals sector on aviation just to the south of us in the Pilbara, Broome is in a unique scenario where, through that boom, we did not have a lot of that traffic, and our aviation sector was, I would say, dominated by tourism and oil and government. However, now, in the wake of that boom, Broome is now actually having the impact of the oil and gas FIFO coming into the market. I think that is actually an opportunity for the state government to relook at if we can come up with policy platforms and a framework for how do we actually nurture the growth of multiple industries rather than focusing on the most lucrative. Broome is surely the case study that can be utilised to see how that works in the years ahead, as we have obviously got a strong tourism industry that is keen to grow. We also have a strong and emerging oil and gas sector.

The other opportunity for the state government is that the Broome tourism industry is very strongly aligned. Again, in the wake of JPP, the industry was very proactive and in 2014 it established the Broome tourism strategy that was put together by Haeblerlin. This is a great source of information from a true industry perspective on where they think the barriers and the key areas are. This was done in consultation with the bulk of the tourism industry. In the wake of that, the Broome Tourism Leadership Group was put together and was charged with trying to tackle some of the issues or at least some of the items that were identified in here. It basically broke down the barriers and the opportunities of the industry into six pillars—everything from branding and marketing to aviation, product development, leadership event and a couple of other things. That has then also found its way into the “Broome Growth Plan”. From an outsider’s perspective, before the industry might have been rather segmented. I think it has probably never been so aligned and able to respond to working with government.

Broome aviation, in terms of solutions, I would suggest is probably not the same solution that is going to fit other regional destinations that have not had a mix of industries as we have had. The Broome industry would be very keen to be involved in the creation of whatever that solution looks like for Broome and to obviously maintain and enhance its tourism outcomes. I think there is a spectrum of possible outcomes and actions that could come to really assist the improvement of tourism in Broome and the Kimberley. Those are hugely ranging from relatively low cost and probably relatively low outcome to significantly high cost and significantly high outcome.

The TNS report, which was undertaken by the leadership group, is probably the most contemporary body of evidence of how the market perceives Broome as a product. It touches on aviation in there but it is far more wide reaching than that, and that, combined with the Broome tourism strategy, probably clearly identifies where the short to medium-term opportunities really are. Whilst we would obviously love to have transformational change such as international flights through Asia and such, the TNS report clearly demonstrates that there is significant opportunity in the existing marketplaces, often improved just with that information deliver alone. There are probably two key outcomes of the TNS report in terms of brand perception. One is obviously that Broome is too expensive in terms of time and cost of access. The second is that Broome does not have a lot to do and it lacks tourism product diversity and density. That is also clearly demonstrated in this report—that that really is a perception rather than a reality. Some of our key attractions such as our largest tourism operator, the Horizontal Falls, which is based out of Broome, is not associated with Broome in the consumer’s mindset. Even assisting industry to overcome some of the issues and some of the

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actions that were raised by the TNS report would have a relatively rapid turnaround in terms of the tourism industry's visitor numbers.

[1.20 pm]

Obviously, the range of potential solutions go all the way through to things such as assistance to create some cooperative-type of buying power via the industry. The Broome Tourism Leadership Group went through a fairly exhaustive consultation process with Qantas last year as a response to Qantas actually asking us to come and negotiate block charters or mini charters, which are very common in the aviation industry and often utilised by larger sectors such as oil and gas and mining. That was a process that we dedicated a lot of time and resources to. However, at the end of that negotiation process, the terms and conditions that they proposed were not suitable to the industry to actually invest and underpin their operation, which is essentially what we were proposing to do.

What it did show to me though is that there is an opportunity in that space, and if the industry was given the support to negotiate more in a cooperative fashion so that we could actually harness the buying power of the tourism industry that the aviation sector has, I would suggest that would create a couple of great outcomes, one being more competitive forces for that industry. It would also give us the ability to start to tackle some of the perception issues in the marketplace by utilising those fixed costs that were negotiated to be a product of the marketing—the fact that Broome is not necessarily expensive.

In the same vein, some other smaller digital tools to actually help inform our database about things such as cost of aviation to Broome would also be fairly low-hanging fruit. Right now, the consumer has to wade through a lot of information to try to find out what the reality of prices to the destination of Broome are, and, of course, surge pricing that happens during the peak of the season when the bulk of our market is actually doing its research only helps to reinforce the fact that Broome is very expensive. Normally, if you search for a Broome flight from Perth, you only really get three or four days' worth of information. Regularly, you would not be able to see past the point of where the airfare drops off. If Broome and other destinations were able to establish some type of flight scanner—for want of a better word—that was able to easily portray that information to our database and to our market, I think that would be another good way of starting to tackle the perception issues. I think it would also probably create more competitive forces in the aviation sector if it was taken up well by industry and well by the market. It may even be a solution that could then be applied to other destinations.

I will leave it there because, obviously, I could keep going! Those are just some of the observations over the last couple of years and I will pass on to Mike to speak about this.

**Mr Y. MUBARAKAI:** James, were you involved in the process with the Qantas arrangements that you guys looked at last year?

**Mr BROWN:** Yes.

**Mr Y. MUBARAKAI:** Okay I will reserve my questions until later.

**Mr LEAKE:** My background is that previously I was involved in the mining industry. I did three years in Newman working for BHP there, and then 14 years ago I moved to Broome. That gives me a good insight into the transition of the tourism industry over the last 14 years. Bringing up some of the points that James made, we were one of the first companies that listed on Wotif when it started that online advertising. Our business transitioned through the near collapse of Broome after the collapse of Ansett to the peak periods of 2008 and 2009.

Some of the things we need to look at is that we need to look at history and what happened in the past to give us guidance on how we can address some of the problems of the future, because we

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seem to be repeating a lot of these things many times and we are surprised when we do exactly what we did in the past and get the same outcomes. Obviously, in the period from 2004 to 2008–09, we had quite a number of activities that did benefit Broome. We had SARS—I am talking about the things that helped pushed tourism activity here. We had SARS, we had the Bali bombing, we had that tsunami and we had the bird flu scare. It seemed to be that every year there was a major disaster that was driving people away from our main competitor area of South-East Asia and driving them to Broome. Over that period of time, airfares were extremely competitive and the carriers were trying to drive demand to Broome. Just quoting Virgin out of their submission, they said —

On international leisure routes, there is significant scope to boost demand and passenger volumes through promotional activities and price discounting.

So they do realise that price discounting is a way of driving demand where they need to drive demand and build up markets. The situation is: are we a market they want to drive and build at the moment? The answer I have put out there is probably not. We need to take into account, when we look at the underlying factors and the root causes, that the business factors that cause the current high level of airfares are different from the root causes that facilitate these factors to drive those airfares. As we have spoken about previously, Virgin and Qantas operate on a national business model where they need to maximise the efficiency of their assets across the whole of the country rather than just on specific groups. Unfortunately, that has detrimental impacts in certain areas.

In their various submissions, I also note they bring up a range of factors where it seems to be almost everyone else's fault why they have high airfares—local government charges, airfare, fuel and so on. But we need to clarify and identify and not assume that we have high airfares here. We need to look at comparable products and say, for a comparable product, "Do we have high airfares?" If you look at our major market, over 60 per cent of our flying market comes from Perth. If you look at the options they have there that compete with Broome as a destination, you see that airlines fly to Bali at significantly lower prices over a comparable distance.

There is lots of talk in the market how we cannot have low-cost carriers here because you need anchor points at either end—towns of certain sizes and whatever. When you look at Melbourne, there is currently a flight from Melbourne to Townsville that Tiger Air runs and they do that about half a dozen times a week. Their current selling price is a half to a third of the Broome price using identical aircraft. It is a different airline, but even allowing for marginal cost differences in operating costs, there is no reason for the airfares to be three times different. I did that research yesterday. The airfares to Broome and return from Perth were \$442 one way and \$380 return—that is for 30 August.

**Mr REED:** Each way.

**Mr LEAKE:** Yes, on the return leg I meant, and then a flight from Melbourne to Townsville was \$117 and \$143 from Townsville to Melbourne. If we look at comparable products, yes, by definition, it does appear to be that we have significantly higher airfares here and it does seem to be, even allowing for marginal differences in costs and so on, over and above what would occur in a proper competitive environment.

That brings me to what I see as the main cause. All these other issues the airlines and so on like to bring up are marginal factors that affect the business model, but they are not causes of what is happening in the market. The main thing that I believe is occurring in the market is market failure. In a proper functioning market, the consumer is able to choose a product based on what is being offered, and they will respond accordingly. What should happen in a properly functioning market is the supplier should then respond accordingly to consumer demands, but we are not seeing that occurring at the moment. There are two reasons why I see there is market failure: one is a loss of

competition. Up until 2003, we had Skywest, which was then taken over by Virgin in 2003. I will quote Rod Sims' comments regarding that takeover. He said —

“The ACCC's view is that this acquisition—

That is of Skywest by Virgin —

is unlikely to lead to a substantial lessening of competition in any relevant market, primarily because the direct overlap between Virgin Australia and Skywest's services is limited to a single route between Perth and Broome,”

That is a quote out of *The Sydney Morning Herald*. He identified that we would get significant lessening in competition.

[1.30 pm]

The other issue that is causing market failure is the introduction of FIFO workers onto a leisure route. FIFO workers are an inelastic consumer; they have to fly to a destination at a given time and usually on a fixed-price structure. As a business, I would love to have a guaranteed number of people coming through my business at a fixed rate at regular intervals. When you do that, you can manage your business accordingly and you know that you do not have to compete to get customers to give you that simple return on capital. The airlines have been responding in different ways as a result of the market failure and the lack of competitive pressures, and they have been maximising their business model and return on capital they have invested. For example, one of the phrases they put out is they have been “right-sizing planes”, which means dropping the size of the planes on this leg to a smaller plane regardless of the fact of what the consumer demand is. For example, in May this year, for five days in a row, some people were waiting for express post parcels to be delivered. The freight did not arrive on the plane because it was actually pushed off the plane because the planes were full. The planes flying up at the time were 717s. We have two issues here: we have the pricing issue and then the capacity constraint issue, where even though the demand is there because the planes are full, the suppliers are not putting on extra services to meet that demand.

There are two issues that are significantly impacting on the tourism market and causing this distortion of the market, which I refer to as market failure. The third consequence—getting back to the tourism industry—I call tourism displacement. We have plenty of examples in WA where you cannot have a corporate market survive concurrently with a leisure market in a very productive manner. What is actually happening in Broome, and this is one of the main impacts on the tourism industry, is we are getting displacement of tourists by the FIFOs coming up. This is not having a go at FIFOs; this is recognising how things sit financially in an economic model.

The FIFO workers do provide a financial benefit to the town, but I would like to present some basic figures I did looking at the economic return to the town as a whole. You would probably get a five or six-fold increase in benefit to the town from a tourist compared with a FIFO worker flying up. If one FIFO worker displaces a tourist because of those airfares, that is a net loss to the town and to the economic activity in the town. As James said, we have a lot of under-utilised assets here that are not being utilised. For example, if one tourist flies up, they come, they stay five or six nights, and that room is then taken off the inventory for six nights. If a FIFO worker comes up, they stay overnight, that room is only taken off the inventory for one night, and then you need another person to fly up the next day to again fill that room. So there is this accumulative impact on the distortion of the market and there is a multitude of factors that come in and affect how things operate.

As far as ways forward, I agree with what James has put forward about how we need to look at some ways of trying to bring a proper functioning market into action. That does potentially give the government some right to step in and say, “Look, the market is not functioning properly. We need

to come forward and put schemes into place that will help the market function more efficiently for the benefit of the entire community.”

The airlines will put out very many comments about reasons why their airfares are so much higher. I think there are plenty of real examples out there of where a lot of these things do not stack up, and we need to take that into account. They are fighting for their business model, as I am fighting for my business model. It is just that, as James said, we do not have the leverage in the market to actually compete against these guys and the other factors that we have in a market that is distorted and currently failing through lack of competition.

As an example of the way forward, I have put in the submission that the Queensland government set up an attracting aviation investment fund, and that was responsible for securing direct flights between Melbourne and Townsville with Tiger Air. That in itself seemed to be producing quite good results. As far as I know, it has been going for about 16 months now, if I remember correctly, and that has provided a nice boost for tourism there. I think that is a scenario that we could actually look at where the government might actually assist in providing seed funding to look at doing a business case for a different model of how we as an industry can get leverage in that market. We just need assistance in it.

**The CHAIR:** Thank you, Mr Leake. Mr Reed, do you have anything you would like to add to Mr Leake’s or Mr Brown’s comments?

**Mr REED:** James and Michael, I second and compliment them. I think they have covered almost everything. One of the problems is that nearly all of the Qantas flights are 717s. QantasLink has no elephant trunk out to the airplane. Quite a number of times—as you know if you have been in Perth, it has been raining like hell down there quite a lot. I had friends come the other day and they were absolutely drenched when they got on the plane. When you get on those little 717s, there is no entertainment, there is no business class and there are small, crowded seats. There are almost no 737s on the Perth–Broome link.

Why could it be cheaper to fly or why should the fares be lower Perth–Singapore return, Perth–Auckland return, lower than Perth–Broome return, for goodness sake? I think about 60 per cent of my clients are Western Australians from Perth; the other 40 per cent from interstate. Broome has a lot of the fact there are very few places in the world where you can have weather like this for six months of the year, and even in the wet season it does not get such high temperatures here as it gets in the Pilbara and the East Kimberley. Even when it is raining, there is quite a few Europeans—Germans and English—come out to escape the European winter.

Broome itself was the only town in Australia that was exempted from the White Australia policy, hence there is a very multiracial community in Broome. You can look at the faces of the kids coming out of the schools here; there are all sorts of colours and shapes. The facilities in Broome, like the hospitals and schools, are top of the wazza now. The Broome Senior High School had two students, I think, in the top 10 in Western Australia last year. The hospital here and the medical facilities are extremely good. I back up everything James and Michael have said. It is great to get such an illustrious group here as you mob, but by God I hope to see something from it. I really hope to see something.

**The CHAIR:** We will try not to let you down.

**Mr REED:** We have had it before and nothing has happened. We do need competition and it is healthy for business. I used to be about the only pearl jewellery shop in Broome and I could not sell very much. Now there is a dozen of them and between us we are selling more than ever, ever before, so competition is very important for business, for politics and everything else, for competition.

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I would like to see a lot more competition on the airlines coming into Broome. But thanks very much to you, this illustrious mob, for coming. I wish you very good luck.

**The CHAIR:** Thank you for having us. So far, we have loved our time here in Broome. It is a spectacular destination and I think a real jewel in the crown for Western Australia. Given we have to wrap up here at three o'clock because we have a public forum, I want to home in pretty quickly on, and talk about, competition. There has been a real focus on the supply side and the fact that there was a little bit of tension. It has tapered off and it seems like there has been a bit of a duopoly but it has potentially stabilised and we are just not seeing those low airfares.

You mentioned that one of the things you had tried to do collectively is address that from the demand side by working together to potentially encourage competition or work with Qantas. Could you talk to us a little more about how that operated, what you did, the journey you went on with Qantas and what your experiences were?

**Mr BROWN:** At the start of last year there was a group from industry that were quite public about initiating charters from Perth to tackle some of the issues around surge charging in peak periods and such. That led to Qantas offering basically to say, "Don't bother about doing your own charters, we will squash that in no time at all."

**The CHAIR:** Just for clarification, the charter was part of a bundled accommodation and airfares tourism package?

**Mr BROWN:** With Qantas or without Qantas?

**The CHAIR:** Without Qantas. What was the initial idea?

[1.40 pm]

**Mr BROWN:** The initial idea with just to try and charter aircraft to get people to Broome. I do not think it had gone to the detailed level of how it was going to package and who and such, but that was enough to trigger Qantas to start negotiating with the industry. Tourism WA supported those discussions. In essence, what we were looking for was an opportunity to buy block seats within the aircraft; it could have been 30 or 40 seats out of every aircraft that the industry underpinned at a wholesale rate that it was then able to take to market and package out with accommodation and try and market that. We had in-principle support from some of the key accommodation providers, so we progressed that as well as we possibly could. However, over numerous meetings, the initial target and terms and conditions were slowly but surely eroded until the last offer presented by Qantas was less competitive than what they had currently offered us. It was much more the wholesaler that very day. We could have walked out of that room and actually got better terms and conditions elsewhere, so it was illogical.

**The CHAIR:** How long did that process take?

**Mr BROWN:** From memory, about four or five months.

**The CHAIR:** And within the space of one season or did it span?

**Mr BROWN:** No; it was within the space of one season—at the start of the 2016 season until the middle of the season.

**The CHAIR:** By the time the process had wrapped up, the opportunity had passed for you to inject some more competition into the market?

**Mr BROWN:** Yes. Then it was possibly business as usual. And as these things go, the initiative and enthusiasm of individuals and small, essentially volunteer, industry groups peak and wane and obviously it stretches out enough to get through it. We are yet to negotiate with Virgin or progress

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it further. It certainly did highlight the fact that industry could at least sit at the table with Qantas and start to do those negotiations. I think if we were more empowered with detailed information and also additional resources to continue that process, it is something that I believe would still be of interest to the industry. You have a significant accommodation industry up here that would be prepared to underpin the aviation sector to a very large amount. We are talking probably millions of dollars in the course of a season.

Of course, it is not a new model; the model exists. From my understanding, I just do not think it has been applied by the tourism sector outside of individual entities. In a relatively small destination such as Broome, the Cable Beach Club Resort often does charter its own planes from time to time, but outside of those large, single entities, it is difficult for the rest of the industry to negotiate those outcomes themselves. They are left to only go through the existing pipelines, such as wholesale arrangements and so on and so forth. It is not, in my mind, the most comprehensive way that you could really harness the market. If you look at the main driver of seats to Broome, I would suggest that tourism probably still is the greatest by volume. Outside of that, it is the resource sector and government. I would suggest, as the Tourism Council's report demonstrated, the two work very differently in terms of the way it affects the business models of the aviation sector. I would also suggest that the government demand is probably more aligned with the oil and gas and resource sector than it is tourism. If the government was to work collaboratively with the tourism sector to try and make the most of those opportunities, it may well be a stepping stone to the government actually being able to work in that space as well.

**The CHAIR:** So maybe inject a bit more balance into what seems to be a bit of a failing market structure?

**Mr BROWN:** I would have thought so. As the major customer, if we were able to sit down and negotiate an outcome, I would have thought it would be a fairly powerful thing. To me, it seems like the one obvious component that is not being utilised by an industry which actually has a significant amount of investment and is the main driver of creating demand on that route, yet it is very much just a price tag for whatever is offered on the day, rather than actually sitting down in a strategic way and negotiating what it believes are reasonable prices. You have to remember that we are not looking for \$120 fares. The TNS report did ask the question of the Perth market on its level of interest for fares between Perth and Broome at \$700 return—less than half were interested. If you drop that to \$450, more than 80 per cent are interested. It shows you how price sensitive it is. It also shows you how the market could be quite quickly activated.

**Mr S.J. PRICE:** James, just following on: what capacity is the tourist industry inventory running at so far this season? Has it been 80 per cent or 90 cent?

**Mr BROWN:** That is probably a bit high.

**Mr LEAKE:** Based on the ABS statistics, the chamber, working through the tourism leadership group, compiled some figures over the last five years or so. For the July–August–September quarter, five years ago we were operating at about 80 per cent capacity, according to the ABS statistics. Two years ago, it was down to just over 60 per cent for that quarter. That reflects the shortening of the seasons and the quicker drop-off too. We typically see quite a significant drop-off the day after school holidays and the day after Easter. It is very, very marked.

**Mr S.J. PRICE:** In regard to what you are trying to establish here with Qantas and a particular product you are trying to develop, is that for in-season or for the shoulders?

**Mr REED:** It is for the shoulders.

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**Mr BROWN:** Primarily, but I think there would be good cause to try to negotiate some of that for the peak season as well so that we could at least go to the market and try to offset the perception issues that every airfare costs so much. One of the issues for the domestic market when they do try to compare Broome with other destinations, on the east coast, similar fares have a similar entry level per kilometre. Our entry fare to Broome is not bad but, again, on the east coast, the way the fare classes work, generally if you look at a similar route, they go up by about \$30 or \$40 per seat class whereas in Broome, they go up by \$70 or \$80, so you very rapidly take the consumer to a price point which is no longer of any interest at all and actually establishes one of the greatest barriers to that consumer to continue researching destinations. Things like the headline of \$5 000 is about as bad as it can get for Broome, because that is just reinforcing the perceptions so the consumers are not even going to look. I think that is something that we probably have to tackle.

**Mr LEAKE:** You are right. We really want to look at the April to October season as a whole and as an entity where we can expand the accessibility across that whole period. From the operator's perspective, the demand is there. We get numerous people who say, "Can you hold accommodation for us? We're just going to get some airfares and then we'll get back and confirm the dates." When that happens, when people do not have the airfares already, usually the answer is, "Thanks but we're going somewhere else." It is especially those periods between school holidays that are quite susceptible.

Obviously, on the weekend just gone it was quite high. But there is such significant scope to increase the economic activity in Broome from that April to October period. My workforce is half what it was seven years ago, and I am just a small business. There are many, many small businesses that are in exactly the same boat.

**Mr S.J. PRICE:** It is really interesting. I was checking the internet last night. I think it is Expedia where you can design a package. Does the tourist industry here or your group have any input with people like Expedia to promote these packages? Does that make sense? Or is it on an individual resort basis or operator basis?

**Mr LEAKE:** It is all individual. Unfortunately, it is another duopoly. Expedia and Booking.com have over 80 per cent of the online travel agent market and they just tell us what they are offering and it is up to us to give them discounted prices. They are not destination marketers; they are actually brand marketers where they want to market themselves. They might say that they are going to run a special on Broome but all they want to do is give out that perception that if you want to book a cheap holiday, you always go to them rather than going direct.

[1.50 pm]

**Mr REED:** Broome got some bad publicity fairly recently; I think it was in the past month. Somebody had to get from Broome back to Perth in a hurry and could not get a seat. They had to fly business class Broome–Melbourne. It was a bit over \$6 000. It hit the newspapers quite strongly. When was that? It was in the past few months.

**Mr BROWN:** It was in the last school holidays. The other thing that is important to understand is that at the peak in 2007 to 2009, the number of tourists coming via the airport to Broome were around the 240 000 to 250 000 mark or something in that range. We have only probably dropped 50 000-odd, maybe a little bit more now. The numbers between really switching an industry on and employing hundreds more people are not that great. We certainly are not in a position where we need to go head-to-head against Bali or these overseas destinations. We just need to be able to target the premium customers and take that because the reality is, of course, that we could not take the 800 000 outbound departures from Perth to Bali even if we wanted to. We certainly could take

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10 to 15 per cent of them and I would suggest that there are at least that many who are spending more than a holiday to Broome.

**Mr S.K. L'ESTRANGE:** When you are talking about premium clients, picking up on Bill's point earlier, if you are putting on aeroplanes that do not offer business class, do not have entertainment and make people walk out and get wet on the tarmac, how does that impact on your premium?

**Mr REED:** And they cannot buy the daily newspaper. Quite often—say, two or three days a week—the daily newspaper comes the next day. A lot of Perth people who are here say, “What is this?” They talk to their friends about the fact that nobody is going to Broome because they cannot get the daily newspaper.

**The CHAIR:** We struggle as politicians!

**Mr S.K. L'ESTRANGE:** Have you done any measures of the impact of what Bill said earlier?

**Mr BROWN:** No, not specifically on that. Again, the consumer perception report highlights the fact that the product has got to be worth it in the consumer's mind. It is not necessarily about just the price of it; it is about how the product is delivered. In that vein, it would certainly be an impact. If that is your initial stage of travelling to Broome, getting drenched on the tarmac at Perth, it is certainly not really adding value compared with walking onto a nice warm plane heading off to Bali for half the price.

**Mr LEAKE:** Having said that, if we go back to the fundamentals, over 60 per cent of our market is the Perth market. It does not matter how they are getting here—what plane they are hopping on—with half the planes, you have to walk out to the plane anyway. The main issue is in the various touch points that we have with the consumer and where they actually start making decisions and start dwindling down the options.

**Mr S.K. L'ESTRANGE:** I suppose it is repeat customers. If they have a poor experience, they are less likely to —

**Mr LEAKE:** Having said that, if you look at TripAdvisor and a lot of web-based rating sites, Broome is right up there. The satisfaction level is extremely high, especially when you compare it with other Australian destinations. So the repeat customers and the people we get here —

**Mr S.K. L'ESTRANGE:** Are not put off by a poor airframe.

**Mr LEAKE:** No. Most of them actually love the airport here. They love it being called the Broome International Airport.

**Mr S.K. L'ESTRANGE:** I am not talking about the airport; I am just talking about the F100.

**Mr LEAKE:** I do not think the planes themselves are an issue. We do not get any comments like that. It is more the taxis at the airport and those other minor things.

**The CHAIR:** I just want to pick up, Mr Leake, on a comment you made in your opening statement that Broome clearly is not a destination for growth for the airlines. What gives you that impression and why do you think it is not a focus for growth?

**Mr LEAKE:** In the submission I gave you, I did some rough modelling based on some figures to try to get some ground in the figures. Even though it took James six months—no offence to James—to try to get some figures out of Qantas, it took me a week to get some figures out of Skippers on a potential cost for charters. I used those figures from Skippers to do some financial modelling based on some estimates from the various submissions from INPEX and so on and the amount of FIFOs. If you go through and start doing the numbers, if your cost is about \$24 000 each way for a Fokker F100 to fly up here, which is what Qantas does use —

**Mr S.K. L'ESTRANGE:** That is \$24 000 one way?

**Mr LEAKE:** One way, yes. INPEX says in their submission that they fly up 40 to 45 FIFOs. If they are paying an airfare of, say, \$600, that is \$24 000. That is the plane paid for to come up here. These are gross figures. You have got to make allowances and so on. As James said before, you slap on a few other compulsory travellers—government employees who just take the price they are offered, businesspeople who have to travel down, PATS people who have to travel down—you might have an extra 20 or 30 people on that plane who have to fly and take the price that is offered. You might end up with 70 people on the plane paying \$600 an airfare.

If you do the modelling on that and you look at the profitability on that and the return on investment, and then you drop the airfare down to \$300, you have actually got to fill the plane to 100 per cent or more to get the same economic return. There is that balance point between yield on a number of clients and the price they are prepared to pay to the occupancy. So it is a constant balancing act where you have to look at where the graphs cross and where all of a sudden you start losing return on investment and capital, on the capital that is deployed. It is partly because of that distortion of having a fixed client, an inelastic consumer, who has to fly, will fly at a given price. That is why I said it is not just the FIFOs. We have the government employees, we have the businesspeople who have to fly; people have to fly down for funerals and those reasons. They are quite inelastic in their demand, but it is exaggerated more when you have that FIFO component there that is guaranteed.

**Mr S.K. L'ESTRANGE:** What about looking for some innovative solutions to try to increase the demand for flights—things like underwriting all flights with airlines to try to help them be more comfortable with a lower price?

**Mr BROWN:** That was exactly what the Qantas negotiations were. I agree with you. That certainly, I think, should be one of the outcomes that we would like to consider out of this inquiry. I think that is a good way forward.

**Mr S.K. L'ESTRANGE:** The Broome business community—we had the CCI in here for a hearing earlier—have you got together with them to model some of those approaches?

**Mr BROWN:** They are involved in the negotiations with Qantas as well through the Broome tourism leadership group. They are one of the institutional members; so, yes, they were. But again, it needs the resourcing and the structure, I think, to really pursue it.

**Mr D.T. REDMAN:** James, you talk about using the government “buy” as a leverage to get the airlines to do a better deal. How do you do that? Industry is here saying, “We want to be one of the parties that comes to the table for this discussion”, so how do you do that? Is that just getting three people in the room representing those sectors and saying, “Right, let’s negotiate it”? I am trying to think of the mechanics of how you land it because —

**Mr BROWN:** It would obviously be dependent on the type of department and the type of traffic that it was, but I would have thought that if there were 10, 20 or 30 seats, or whatever it might be —

**Mr D.T. REDMAN:** There must be a lot.

**Mr BROWN:** And especially if the government statistics showed you that that was fairly consistent, that you could go out there at least and help underpin the particular service with the tourism industry and basically help underwrite the company in providing that service, the department would then utilise those like we would. You would have a central point where you could divvy out those seats and then the terms and conditions as such are that if you did not actually utilise them and you did not have them allocated within whatever it might be—two, three or four weeks out—you would just hand them back. There are standard mechanisms for how that bulk-booking worked.

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My point was that it just seems like an opportunity for the state government to actually start to utilise its spend. Someone was telling me that the Department of Transport, on some of the reloaded flights or whatnot, actually came up with this concept that it did not want to basically help fund other government departments or whatever it was. I cannot remember how it all worked, but basically government departments are paying more than other consumers on these regulated flights. This is a Kununurra-based organisation that was helping me with some of this information. But it is just very illogical where, if you take a high-level view, you have got a large consumer and how does it actually negotiate better outcomes? I just would have thought there was some opportunity there, obviously not for PATS flights and other emergencies, but there must be some certain percentage of the government traffic that is relatively consistent.

**Mr D.T. REDMAN:** I have one more question. I know we are moving into the internet world and digital world, but one group that has not really strongly represented in submissions to us is the travel agents group. Any comment about the value of engaging us as a committee talking to travel agents about how their game is played in the context of airfares?

[2.00 pm]

**Mr BROWN:** I think it would be important for this inquiry to understand how the travel agents are currently positioned in the aviation sector. They have obviously gone through some fairly rapid adjustment as well with the digital world coming online, but I think travel agents are finding where their new placement in the market is. They probably have some emerging opportunities that might not have been there five years ago. They are probably coming to terms with the rapid drop in their revenue. It does seem like you are fighting an uphill battle, though, if your travel agents, at the end of your wholesale pipeline, are actually not incentivised to sell domestic destinations. I am not sure how that came about or if there is any ability to change that, but it would be nice to think that those travel agents were at least evenly incentivised to sell domestic or international.

**Mr D.T. REDMAN:** They are a taxi in the Uber market, are they not?

**Mr BROWN:** Yes.

**Mr LEAKE:** Can I just —

**The CHAIR:** We need to wrap up, so if we can —

**Mr LEAKE:** Just a quick one in response to what Sean said about the other options. In formerly working with Jael at the chamber, we have started getting pricing for charters and looking at that. We got basic assumptions that we can get a one-way airfare at \$242.50 out of there—from Perth to Broome and then Broome back to Perth. Obviously there are a lot of conditions around it, but it is not insurmountable—so we are looking at that. Part of it might be leading to what Terry is also saying there—his question—looking at whether we can actually use that to put a bit of competition in the market. If the government paid a lower price and you look at the financial modelling, that would put downward pressure on prices altogether because you lose that premium.

There are some things that would come into play. We are trying to investigate that. As you said, what we need is probably a hand to help do the business case analysis on how we can bring the industry together to put a concrete product into the market. That is where we would like some help.

**Mr Y. MUBARAKAI:** Can you quickly tell us who are the key stakeholders that are currently looking at this approach? Who are they? You said “we”; I want to know who “we” is.

**Mr LEAKE:** James and I are on the Tourism Leadership Group. We have been working with Jael at the chamber of commerce and Peter Taylor on some of these things, trying to get alternative ideas together. We need to get a bit of flesh before we put it out into the broader community.

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**The CHAIR:** I will have to draw things to a close because we have a public forum that started four minutes ago! 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 the correction of minor errors. Any such corrections must be made and the transcript returned within seven days from the date of the letter attached to the transcript. If the transcript is not returned within this period, it will be deemed to be correct. New material cannot be added via these corrections and the sense of your evidence cannot be altered. Should you wish to provide additional information or elaborate on particular points, please include a supplementary submission for the committee's consideration when you return your corrected transcript of evidence. Thank you very much.

**Hearing concluded at 2.03 pm**

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