

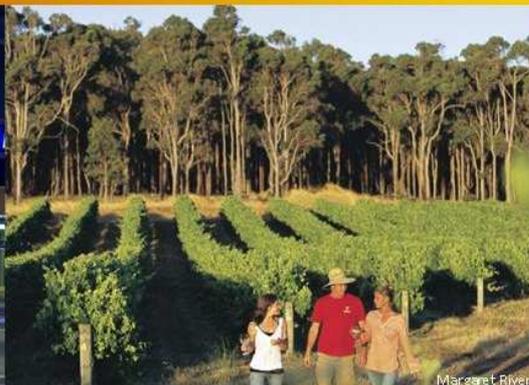
# Tourism Council WA Policy Paper



## Comment on the draft WA State Aviation Strategy



Perth Airport



Margaret River



Burswood Entertainment Complex

#### Tourism Council WA

Tourism Council WA is the peak body representing tourism businesses, industries and regions in Western Australia. The Council promotes the value of tourism, facilitates sustainable tourism development and advocates industry policy on behalf of members.

#### Our Membership

Tourism Council WA directly represents over 1,000 private and public sector members across tourism, including aviation, accommodation, venues, hospitality, tours, attractions and events. The Council is also the peak body for Western Australian regional and industry tourism associations.

Our united business, regional and industry membership endows Tourism Council WA with the collective voice of 3,000 businesses employing over 75,000 people across Western Australia.

#### Industry Representation

As the voice of industry, Tourism Council WA proudly represents members and promotes the value of tourism to the state economy, environment and the social fabric of local communities.

Tourism Council WA develops evidence-based industry policy on: business regulation; marketing and events; parks and environment; planning and infrastructure; aviation and transport; and workforce development. The Council advocates our policy agenda to government and maintains an active public profile and media presence to communicate critical industry issues.

#### Industry Development and Accreditation

Our industry development programs assist members to enhance their sustainability and profitability. Tourism Council WA facilitates business and workforce development through training, workshops, site visits, online facilities and our professional team of state-based industry advisors.

The *Australian Tourism Accreditation Program* is a national business development program based on Quality Assurance principals. Accreditation is a vital industry asset designed to continually improve standards, market quality product and enhance the reputation of tourism destinations. Tourism Council WA delivers accreditation to over 900 tourism businesses across the state.

#### WA Tourism Awards

The *Western Australian Tourism Awards* are the most prestigious in the industry, attracting fierce competition, widespread media coverage and strong consumer recognition. Each year 900 guests gather in Perth to celebrate the industry's achievements at the Awards Gala night.

#### Annual Conference and Leaders Roundtable

Our *"You're the Voice"* conference is the premier annual gathering of the state's tourism industry attended by more than 400 national, state and local tourism business and government leaders.

Throughout the year Tourism Council WA also hosts industry networking events, including our *Parliament House Function* and *Leaders Roundtable* forums for members to discuss issues with Ministers and key decision makers.

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# Tourism Council WA

## *Comment on the Draft WA State Aviation Strategy*

### **Introduction**

Tourism Council WA supports the overall purpose, findings and actions spelt out in the draft State Aviation Strategy. The purpose of this submission is to make comment on parts of the draft strategy which are of significant importance and concern to the tourism industry:

1. Comment on draft strategy Part 9 - regarding Perth Airport runway capacity.
2. Comment on draft strategy Parts 13 & 14 - regarding affordable fares on WA regional routes.
3. Additional comments regarding Broome Airport and Regulated Routes & the GDS.

Tourism Council WA appreciates this opportunity to comment on the draft State Aviation Strategy. We would appreciate the Departments consideration of this submission and subsequent adjustments to the final strategy.

### **1. Comments on Part 9**

#### **Perth Airport Runway capacity**

The draft strategy finds that due to inflexibility of mining shift rosters, and growth in FIFO traffic, Perth Airport has exceeded runway capacity during peak midweek afternoon and particularly morning (6am to 8am) periods. The draft report recommends additional runway capacity to address this capacity constraint.

FIFO traffic has clearly been the main source of growth in passenger movements at Perth Airport, however it should be noted that FIFO remains a minority of passenger movements. The significant majority of passenger movements at Perth Airport are:

- from international and interstate services.
- by inbound and outbound tourism (including leisure, VFR and business).
- outside the FIFO midweek morning and afternoon peak periods.

Tourism Council WA supports the provision of additional runway capacity to alleviate congestion due to FIFO traffic in peak periods, provided it is not funded by an additional levy on all aircraft and/or passenger movements.

A levy applied on all aircraft or passenger movements would result in tourism becoming the majority funder of infrastructure to address a capacity constraint on FIFO peak midweek morning and afternoon periods. Airlines would pass this levy onto the airfare price, resulting in the tourism industry and non FIFO passengers subsidising the infrastructure needs of the resources sector.

Any additional runway capacity should be funded by a levy on aircraft and passenger movements during the peak periods. This would provide a true price signal to the resources sector to determine

if the most efficient option was paying for their own runway infrastructure needs or adjusting their FIFO traffic needs.

Applying a levy to all aviation movements would increase airfares for non-FIFO passenger services. Higher fares would negatively impact on leisure and VFR tourism which is relatively price elastic. More immediately, the higher fare would undermine route development with new low cost international and interstate service.

For example, SCOOT Airlines has commenced low cost services from Singapore to Perth with a \$160 one-way airfare. This will provide a significant increase in leisure tourism from Asia. However, that \$160 airfare must cover the \$57 passenger movement charge and existing landing fees. Like all low cost services they operate on tight margins. A further increase in landing fees to pay for FIFO runway needs could have a significant negative impact on Western Australia's ability to develop and retain these new routes and low cost services.

### **Recommendations**

1. The draft strategy should incorporate an analysis of the impact of runway infrastructure levies on non-FIFO traffic that is not facing capacity constraints.
2. The draft strategy should recommend a congestion levy approach to ensure that tourism and non-FIFO passengers do not subsidise the resource sectors runway capacity needs.

## **2. Comment on Part 13 and 14**

### **Policies to Achieve Affordable Airfares in Regional WA**

Tourism Council WA concurs with the draft strategy's findings that air services to regional WA destinations are expensive compared to competing leisure tourism destinations in other states and overseas. It is in the best interest of the tourism industry for the State Government to apply policy settings which achieve the lowest possible air fare.

Tourism Council WA is highly concerned that the strategy incorrectly assumes that route deregulation will lead to lower fares per se. This assumption is erroneous and inconsistent with the findings of the draft strategy.

### **Inconsistent Strategy Findings and Actions**

The strategy at 14.2 contends that WA intrastate routes are expensive particularly compared to Queensland. This analysis is correct. It should be noted however, that all of the WA routes mentioned in the analysis at 14.2 and Table 13 are deregulated routes. If it shows anything at all, the analysis at 14.2 shows that deregulated routes such as Perth-Broome do not achieve low fares compared to Queensland.

Secondly, the strategy at 14.2 contends that the high price of air fares is due to the predominance of the relatively price insensitive business-corporate market. This analysis is also correct. However it should again be noted that the analysis at 14.2 shows that deregulated routes dominated by

business travel, such as Port Hedland, are expensive compared to Queensland despite the fact that there is competition on the route.

The draft strategy's own analysis consistently shows that deregulated WA routes have not led to low fares per se. However the strategy recommends at 14.4 that the state "seek to deregulate RPT routes wherever feasible" as a means of lowering airfares and further argues at p 82 that "the maintenance of regulation will ensure continued high airfares". There is no evidence to support this statement and the analysis in the draft strategy indicates otherwise.

### **Regulation or Deregulation**

Tourism Council WA contends that deregulation is not a policy objective but a policy lever. Deregulation can lower prices where it can introduce competition to a predominantly leisure route. Regulation can lower prices by introducing a competitive tender on a route which is a natural monopoly. The policy level should be applied depending on the characteristics of the route.

Where a route has insufficient demand to sustain two or more competitors there is a natural monopoly. Without regulation the monopoly airline will have significant power to set high fares as the sole supplier. In the scenario of a natural monopoly, route regulation is essential to introduce competition via a periodic tender process.

Where a route is of sufficient size to sustain two or more airlines, deregulation is still not sufficient to achieve price competition. For route deregulation to achieve lower prices several conditions must be met:

#### **I) There must be a sizeable leisure market for the route.**

The leisure market (including holiday makers and those visiting friends and relatives) is relatively price elastic and is more likely to select airline, time of travel and destinations based on price.

This does not hold for business travel which is relatively price inelastic. For the business traveller the time of travel and destination are determined by the purpose of visit not price. The choice of airline is typically determined by flight schedule, loyalty programs, service quality and company-airline contracts covering multiple routes.

Unless there is a significant leisure market for the route, lower prices will not increase the size of the market and will have minimal impact on airlines share of the market. Airlines are well aware of this and do not price discount to the business market. Low cost carriers on the other hand target leisure passengers to leisure destinations.

Where there is a mix of leisure and business travel, airlines will not price discount if overall yield is reduced by business travellers accessing lower prices aimed at the leisure market. Airlines will price discount if there is competition, and if there is a sizeable leisure market, but only if they can distribute discount fares to the leisure market.

#### **II) An airline must be able to use the Global Distribution System and dynamic pricing**

An airline must be on the Global Distribution System (GDS) to enable the fares to be distributed to the leisure market through channels such as Online Travel Agents (e.g. Webjet) and traditional travel

agents (e.g. Flightcentre). If an airline is not on the GDS it will not be able to distribute fares through the main channels used by the Free and Independent (FIT) leisure market.

However airlines will not discount prices through the GDS if it enabled business travellers to access the fares. Airlines do discount through the GDS using dynamic pricing. Essentially the earlier the flight booking, the more likely the booking is with the price sensitive holiday maker planning ahead and the cheaper the fare. The later the booking, the more likely the price insensitive passenger travelling for business needs and the higher the fare.

For some degree of price discounting for the leisure market, airlines must be on the GDS and have the means to implement dynamic pricing. However routes that are predominantly business and government travel will see only limited price discounting through dynamic pricing.

### **III) An airline must be able to package for the leisure market**

The most effective channel to stimulate demand from the leisure market with discount prices is through holiday packaging via a tourism intermediary such as a wholesaler or inbound tour operator. An airline will provide significantly discounted fares to a tourism intermediary, because they will not be available to business travellers. The discounted fares will be 'hidden' by the intermediary in the total price of a packaging which include airfares and accommodation. These fares are also typically distributed to intermediaries via the GDS.

This packaging only occurs if there is an interested tourism intermediary able to package fares, accommodation, tours, events and attractions. Packaging particularly requires sufficient stock of rooms in the route destination which are bookable, commissionable and able to be packaged. This excludes most owner operated accommodation such as B&Bs and small caravan parks. In essence a regional destination needs sufficient 'branded' accommodation chains to package with discount airfares for the leisure market.

#### **Key Concern**

Tourism Council WA is concerned that the strategy has been written to justify a predetermined policy objective of deregulation. We have significant doubts as to whether deregulation would achieve lower fares on any of the existing regulated routes because they: are natural monopolies, are predominantly business-corporate travel and have limited means to package and distribute lower fares to the leisure market.

In these conditions deregulation would remove competition by tender and result in a monopoly provider to a predominantly price insensitive market. The resultant increase in airfares would do significant damage to the local tourism economy.

Once deregulated it is highly unlikely that any government would re-regulate or subsidise a route. The draft strategy suggests that this is a possibility to mitigate the risks of deregulation. This provides no real certainty to tourism investors and operators needed to build the leisure tourism market. Tourism Council WA is totally opposed to deregulating a route as a means to finding out if deregulation increases or decreases fares, particularly on the unlikely suggestion that it may be re-regulated if unsuccessful. Deregulation should only proceed if independent and well considered analysis gives tourism businesses confidence that it would succeed.

### Recommendations

1. The strategy should not focus on deregulation as a policy objective. The policy objective should be lower fares with regulation / deregulation used as a policy lever to achieve the lowest price.
2. The strategy should provide for an assessment of the characteristics of each route. This assessment should be at arm's length from the Department and undertaken by an independent aviation economist. Routes should only be de regulated where an independent assessment and market tender show that the conditions will be met for price competition to occur.
3. The strategy should focus on policies to increase price competition on regulated routes including:
  - Shorter periods between competitive price tenders for regulated routes.
  - Requiring all airlines on regulated routes to be on the GDS.
  - Requiring airlines on regulated routes to provide minimum levels of discounted fares through the GDS to the FIT leisure market.
  - Requiring airlines to make discounted tickets available for tourism intermediaries to build the packaged leisure tourism market.
4. Tourism Council WA should be consulted on analysis of regulated routes.

### 3. Additional Comments

#### Monkey Mia, Regulated Routes and the GDS

The draft strategy does not currently address the need to ensure all airlines on regulated routes are on the GDS. Without the ability to distribute airfares through the GDS, the majority of leisure visitors will struggle to find and book flights to WA regional destinations. Equally, without the GDS an airline will be unable to discount fares to the leisure market.

Free and independent visitors use travel agents and particularly online travel agents (such as Webjet) to find and book flights. Because Skippers is not on the GDS, potential leisure visitors to Monkey Mia cannot book through channels ranging from webjet or a travel agent in Germany.

Being unable to distribute fares through GDS has had a significant impact on leisure visitation to Monkey Mia. Tourism Council WA understands that passenger movements to Monkey Mia decreased 13% from 5018 in 2011-12 to 4351 in 2012-13. For the same period holiday maker and VFR visitors to the local tourism region, Australia's Coral Coast, increased by 11%. Tourism Council WA contends that Skippers lack of access to GDS is a significant contributing factor explaining when passenger movements to Monkey Mia has declined while leisure tourism to the local tourism region has undergone a significant revival.

### **Recommendations**

To improve the affordability and distribution of airfares, all airlines on regulated RPT routes should be on the GDS as a minimum requirement.

### **Broome International Airport**

Broome International Airport is critical infrastructure for the tourism industry. The draft strategy does well to identify the importance of developing international and low-cost carrier services to Broome.

Tourism Council WA contend that Broome Airport should be clearly identified as the international gateway to the North West and the strategy should pursue consolidation of aviation services and infrastructure investment into Broome.

However on other matters the draft strategy largely notes Broome airport as an exception due to the private ownership of the airport. This private ownership model is worth exploring in more detail in the strategy as an alternative to ownership by local government. For example, Broome airport has performed well on infrastructure investment yet has been criticised regarding landing fees. The strategy could analyse the landing fees and investment in route development and infrastructure compared with other airports.

The strategy is also silent on how recommended actions, such as airport planning, would apply to a private airport such as Broome.

### **Recommendations**

1. The strategy should identify Broome International Airport as the international gateway to the North West and ensure state resources for aviation development are consolidated in Broome rather than being dispersed over multiple airports.
2. The strategy should include a case study on Broome International Airport and analyse the issues of planning, route development and infrastructure investment as they apply to privately owned airports.



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