



Australian Government

Department of Infrastructure and Regional Development

Productivity Commission Issues Paper – Barriers to Services Exports

Department of Infrastructure and Regional Development submission

This submission provides the perspective of the Australian Government Department of Infrastructure and Regional Development (the Department) on barriers to services exports.

The Department notes that the terms of reference for the study require the Productivity Commission (PC) to focus on six key services export sectors. Of these sectors, the Department's primary interest relates to the tourism sector, specifically the role of the aviation policy and regulatory framework in growing and supporting the industry. However, the Department notes that aviation transport services is itself an important services sector, which can be considered a services export or import depending whether the consumer (or cargo) travels on an Australian or foreign airline.

The Department also notes the PC is seeking views on the conclusions reached in its recent report on Australia's international tourism industry, including the scope for further liberalisation of international air services arrangements. The Department provided a submission to this Research Paper, outlining the Government's aviation policy and providing details on the international regulatory environment (for completeness a copy of the Department's submission is included at [Attachment A](#)).

This submission will outline the importance of Australia's aviation industry and the valuable contribution it makes to Australia's services exports, and the Government's approach to balancing the interests of this significant services export sector with the interests of other industries such as the tourism industry. For completeness, it will also restate some of the material provided in our earlier submission about the aviation policy and regulatory environment, while providing some additional observations on the conclusions reached by the PC in its report on Australia's international tourism industry.

International Aviation – approach to bilateral negotiations

The Department is responsible for negotiating Australia's air services arrangements with foreign economies. Trade in international air services is governed by a complex framework of bilateral agreements between Governments. This system of bilateral air services treaties flows from the 1944 Convention on International Civil Aviation (the Chicago Convention). Unlike most other areas of international trade, the Chicago Convention reverses the conventional presumption that trade is allowed unless it is prohibited, so that trade in international air services cannot occur without special agreement between governments.

Government policy for international aviation

The Australian Government's approach to bilateral negotiations is guided by its vision for aviation, which is to foster aviation industry growth in an environment that is safe, competitive and productive. The Government also acknowledges the importance of international aviation to our tourism industry, international trade and our broader economy. The Government's 'Policy for Aviation' sets out its objectives for the promotion of aviation liberalisation in recognition of its role in supporting industry growth:

- To recognise the potential of Australia as a prime tourism destination within the Asia-Pacific region;

- To work to increase global aviation liberalisation while recognising the need to protect our national interest;
- To strongly support the entry of Australian airlines into foreign markets and negotiate to remove barriers that prevent access; and
- To prioritise bilateral air services agreements to ensure we have the aviation capacity necessary to meet future demand.

The Department endeavours to promote these objectives when negotiating bilateral air services arrangements. In preparation for bilateral air services talks, the Department undertakes extensive consultation with our major airlines, airports, tourism groups and other Government Agencies including the Department of Foreign Affairs and Trade (DFAT), and the Australian Trade Commission (Austrade). Advice from these consultations is taken into account in developing a proposed negotiating mandate (approved by Minister for Infrastructure and Regional Development) that reflects Australia's national interest and the Government's policy settings.

Balancing Aviation and Tourism

The Minister for Infrastructure and Regional Development considers the broader national interest on a case-by-case basis when determining Australia's negotiating position. A key aspect of this assessment (and indeed during the negotiations themselves) is to ensure Australian airlines have a comparable opportunity to compete in foreign markets and to allow them greater flexibility in operating services and building their strategic alliances. This approach reflects the significant contribution the Australian aviation industry makes to the Australian economy.

The aviation sector is estimated to contribute \$41.3 billion to Australia's GDP, and is forecast to add 2.4 per cent in total net new jobs growth over the years 2013-2018.¹

In 2014, Australian international airlines ranked among Australia's largest employers, with Qantas Group employing 32,841 people² and Virgin Australia employing over 9,400.³ The aviation sector also indirectly supports employment in the mining industry (which employs 54,900 people and generates \$160 billion in export earnings), and the supply chain/logistics industries (which employed 373,500 people in 2013 with revenues of \$19.1 billion in 2014-15).⁴

International aviation (which leads to services exports) forms a significant part of this industry. Of the 32.378 million international scheduled passenger movements in 2013-14, the share of traffic accounted for by Australian designated airlines was 29.9 per cent.⁵ The importance of this industry underpins the Government's policy to seek the removal of barriers in air services arrangements which restrict the growth of this significant services export industry.

Although aviation and tourism are intrinsically linked, the objectives of the two sectors do not necessarily align. Recognising the contribution of both tourism and the Australian aviation industry to the economy, the Government pursues a holistic approach to market deregulation. This approach does not focus exclusively on short-term tourism priorities, such as 'securing' a new air service from a carrier on a specific route, and nor is it focussed exclusively on removing barriers for Australian airlines seeking to use fifth freedom 'beyond rights' to access new markets to export their services. It should also be noted the Government does not

¹ Transport and Logistics Industry Skills Council Ltd, *2015 Transport and Logistics Environmental Scan*, 9.

² *Qantas Data Book 2014*, 19.

³ *Virgin Australia Annual Report 2014*, 28.

⁴ Tourism Australia, *Tourism 2020 Overview*, 2011.

⁵ Bureau of Infrastructure, Transport and Regional Economics, *Statistical Report: Aviation International Airline Activity 2013-14*, 8.

seek to use the bilateral system as a constraining framework to protect Australian aviation at the expense of the broader economy.

Notwithstanding the need to accommodate the priorities of both industries, this approach to negotiations has led to a very liberal market in Australia, one of the most liberal in the world.

The current state of Australia's bilateral air services arrangements

While acknowledging a small minority of markets are currently constrained, the overall strategy for negotiating bilateral agreements is not impeding tourism growth.

There are currently no markets in which existing bilateral arrangements prevent airlines from adding services to/from Australia.

In some markets, airlines are not able to add services to/from Australia's Major Gateways of Brisbane, Sydney, Melbourne and Perth; in most cases it is foreign airlines that are constrained, but in others Australian airlines are constrained. [Attachment B](#) contains a Fact Sheet which sets out the capacity entitlements and growth potential already available to foreign airlines.

The Department is aware of some constraints in the Hong Kong, Malaysia and Qatar markets. In line with existing policy settings, talks with these economies have been made a priority and are planned for coming months, subject to foreign government agreement, in order to address tourism sector objectives.

In all of these cases, the Australian Government's policy of negotiating (where possible) open access to/from all international airports in Australia other than the Major Gateways means that even if an airline is constrained in adding flights to a Major Gateway, it can add flights to a smaller/regional gateway such as Adelaide, Cairns, Darwin or the Gold Coast.

Ultimately the pace and extent to which we can further liberalise our air service arrangements, whether on a bilateral or multilateral basis, is largely dependent on the willingness of our international partners to meet these ambitions.

The success of this approach is apparent when considered in the context of the Tourism 2020 strategy. The Australian Government and tourism industry participants have set targets for the Australia tourism sector under the strategy. Facilitating growth in aviation capacity is an important aspect of this strategy, with a target of growing operated seat capacity to/from Australia by 40-50 per cent over the period 2009-2020. Australia is well on track to exceed this target. As at the end of 2014 there has been a 39.96 per cent increase in capacity from figures at the end of 2008.⁶

The Department notes that aviation is only one aspect of the strategy. Given the aviation industry's strong progress towards its 2020 goal, investing in Australia's tourism product and developing the right incentives for that investment is also an important consideration in meeting the goals of Tourism 2020. Growth in aviation services alone will not deliver the long-term goals.

It is important to acknowledge that the bilateral system is not a one-way street but based on negotiation between governments. There are many different approaches to aviation negotiations amongst our bilateral partners, and the Government is unable to force foreign counterparts to accept Australia's policy, even on key issues such as the concept of keeping capacity entitlements ahead of airline demand. Much of the international community is moving away from liberalisation towards notions of 'fair competition', winding back the progress that has been made to deregulate the international aviation market.

⁶ Bureau of Infrastructure, Transport and Regional Economics, *International Airline Activity – Annual Publications*, 2008-2014.

It should also be noted that liberalisation is not about guaranteeing more flights – it is about letting market forces operate and allowing airlines to respond to supply and demand in a competitive environment. A liberalised environment allows airlines not only to add additional services but also to withdraw them again as the market dictates. Today (in contrast to the early post-war years of the development of modern air travel) airlines, even state-owned airlines, are businesses rather than government-run public utilities. It is therefore important that airlines have an ability to make a profit within a competitive marketplace. New and existing routes are not a public service but a product offering that must make a financial return.

Because of this, in the majority of cases, it is not regulation or bilateral restrictions that act as a barrier to airlines increasing international air services to/from Australia – it is the commercial reality of the market.

Domestic Aviation

At the domestic level, there is no economic regulation by the Commonwealth of air services (passengers and cargo), leaving Australian-based airlines free to operate any flights and serve any markets they deem commercially viable. While there is state government regulation of entry and capacity on some thin intra-state routes⁷, most intra-state and all inter-state routes are free of these restrictions. Domestic airlines may be 100% foreign owned, subject to approval by the Foreign Investment Review Board. In this respect, Australia is one of the few countries to have opened its domestic aviation industry to Mode 3 services imports via foreign investors.

This framework promotes a strongly competitive industry that benefits the tourism industry and the broader community.

Earlier Productivity Commission Recommendations

The Department notes the PC's findings in its Research Paper on Australia's international tourism industry.

In particular, the Department notes the PC's suggestion that:

Decisions and outcomes could be improved by:

- *greater use of transparent cost–benefit analyses that underpin decisions on further liberalisation (including increased capacity entitlements)*
- *a clear statement from the Australian Government about how it assesses the aggregate national interest when negotiating air services arrangements, including what factors are considered (such as the benefits to the community of outbound travel), and how any trade-offs are made when balancing the interests of different stakeholders, such as airlines and consumers*
- *allowing foreign airlines to access, on an unlimited basis, Australia's major gateways, including any secondary international airports established in the major gateway cities, by extending the regional package. There is very little leverage to be gained in international negotiations from restricting access to any Australian airport, with perhaps the exception of Sydney Kingsford Smith Airport.*

Cost-benefit analysis and assessing the national interest

Notwithstanding the comprehensive and detailed consultation process prior to bilateral negotiations, the Department recognises some stakeholders feel the negotiation process is

⁷ Generally this regulation is part of a Community Service Obligation and may be accompanied by subsidies to airlines operating services on routes that are otherwise uncommercial.

opaque, particularly in circumstances where Australia is unable to negotiate its preferred outcome.

The Department also recognises there is necessarily a measure of subjective discretion in the process. This is inherent to the process of developing a negotiation mandate for the Minister's approval (in which costs and benefits for the community can be difficult to quantify), and also the negotiation itself where the head of delegation must make decisions on 'horse-trading' (which often involve scenarios that are difficult to anticipate) in order to maximise Australia's national interest. In addition, on some occasions the Department seeks to use the negotiating process to leverage broader foreign policy objectives, for example issues relating to national security and maintaining border integrity. The Department is open to suggestions to incorporate additional objective analysis in this process.

However, a "transparent" cost-benefit analysis is unlikely to advance Australia's interests. This is because the public disclosure of Australia's negotiating positions would compromise future rounds of negotiations, particularly in challenging negotiations. The Department notes a similar level of confidentiality is both a necessary and expected element of the negotiating strategy for other international negotiations such as those for free trade agreements, where sensitive commercial matters may be compromised by increased transparency.

The Department also notes that economic modelling is sometimes cited to highlight the benefits associated with the broad principle of aviation liberalisation. Such modelling is often focussed on the impact of additional flights – but liberalisation itself does not lead to additional flights. As noted above, in most circumstances Australia's bilateral restrictions are not constraining the market and further relaxation will not generate more flights. In these circumstances, the positive economic impact of liberalisation will be negligible.

Access to Gateway airports

The Department agrees with the PC's concerns regarding the risks of unilateral liberalisation, and the finding that "the greatest scope to achieve net benefits for the Australian community is likely to come from further liberalisation within the bilateral framework."

It is on this basis that the Department does not agree with the PC's suggestion to allow foreign airlines to access, on an unlimited basis, Australia's major gateway airports. This approach would essentially amount to unilateral liberalisation.

Access to the major gateway airports forms the majority of the limited 'negotiating coin' available to Australia. Except in some circumstances involving 5th freedom beyond rights to the Pacific and trans-Tasman, it is the only 'negotiating coin'. Expanding the Regional Package to include all major gateway airports could mean Australia has no leverage in negotiations with foreign aeronautical authorities. Unilaterally giving away these capacity entitlements for no reciprocal benefit would compromise the long term commercial interests of the Australian airline industry and compromise the Government's capacity to secure beneficial outcomes for the Australian aviation market.

The Department notes the current approach of restricting access to Australian major gateway airports (while ensuring capacity is sufficient for existing demand) has proven very effective in obtaining improved rights for Australian airlines.

Cabotage

The Department notes the Harper Competition Policy Review proposed relaxing restrictions on cabotage in the domestic aviation market. The Department also notes the PC's 1998 review of international air services, which suggested that cabotage should not be specifically excluded from Australia's open skies negotiations, but should be considered on a case-by-case basis. This position was reiterated in the PC's International Tourism Industry Research Paper issued in February 2015. The Department supports this position and notes it is broadly consistent with the current policy approach.



Productivity Commission research paper – Australia's international tourism industry: trends, drivers and barriers to growth

Department of Infrastructure and Regional Development submission

This submission provides the perspective of the Australian Government Department of Infrastructure and Regional Development (Infrastructure) on international aviation, the trade in international air services in the Australian market, the importance of international tourism to regional economies, and relevant issues in relation to transport security. International aviation is a complex industry, operating within a complex regulatory environment that is often unfairly maligned by industry stakeholders as a barrier to growth.

The trade in international air services

The Bilateral System

The trade in international air services is governed by a complex system of multilateral and bilateral agreements between Governments. This system of bilateral air services treaties flows from the international civil aviation's global architecture under the Convention on Civil International Aviation, opened for signature on 7 December 1944 (the Chicago Convention). Unlike most other areas of international trade, the Chicago Convention reverses the conventional presumption that trade is allowed unless it is prohibited: the trade in international air services cannot occur without special agreement between governments.

The structure of international civil aviation under the Chicago Convention also imposes a requirement that every airline have a 'home' country. Each country is then responsible for regulating the operations of their 'home' airlines, and each country then negotiates to secure commercial entitlements and market access rights for their 'home' airlines, which the airlines require in order to operate international services. The main commercial rights sought by airlines include: capacity, the cities that can be served in the other country, the ability to serve intermediate or points beyond these cities, rights for dedicated cargo services and code share rights.

Airlines cannot commence services between two countries unless arrangements are in place between both governments that authorise such services. Those arrangements usually comprise:

- an Air Services Agreement (ASA) which is a treaty-level agreement settled between governments to provide a regulatory framework for the operation of international air services, providing the general authorisation to operate international air services and covering aspects such as safety, customs charges, aviation security, application of competition laws and dispute settlement; and
- a Memorandum of Understanding on air services (MOU), or similar less-than-treaty-status instrument, which sets out the commercial entitlements available to airlines of both sides, such as the number of services that can be operated between the two countries.

Collectively, the ASA, MOU and any other associated documents are generally referred to as 'air services arrangements'.

Within this negotiated framework, the Australian Government does not and cannot unilaterally 'grant' market access to airlines; the framework is always a negotiated outcome.

International Air Services / Aviation Policy Settings

The Australian Government's vision for aviation is to foster aviation industry growth in an environment that is safe, competitive and productive. The Government also acknowledges the importance of international aviation to our tourism industry, international trade and our broader economy.

Australia has one of the most open aviation markets in the world. Since the current process of liberalisation and privatisation began in 1992, passenger and international aircraft movements have trebled. Significant unused capacity, scope for growth on existing services and unrestricted international access to smaller airports all make Australia a comparatively open market.

The Government's 'Policy for Aviation' sets out its objectives for the promotion of aviation liberalisation in recognition of its role in supporting industry growth:

- recognise the potential of Australia as a prime tourism destination within the Asia-Pacific region;
- work to increase global aviation liberalisation while recognising the need to protect our national interest;
- strongly support the entry of Australian airlines into foreign markets and negotiate to remove barriers that prevent access; and
- prioritise bilateral air services agreements to ensure we have the aviation capacity necessary to meet future demand.

The role of Infrastructure in negotiating air services arrangements

Infrastructure's role in international air services is primarily that of regulator. Infrastructure negotiates a framework that allows airlines to operate, setting the limits within which airlines make commercial decisions about the services they wish to offer. Infrastructure is then the economic regulatory authority, issuing International Airline Licences and Timetable Approvals under the *Air Navigation Act 1920* to permit airlines to operate international air services.

Over recent decades, Australia has negotiated air services arrangements with some 94 economies, creating a global network of market access rights covering all major markets around the world.

Maintaining and expanding this network of arrangements is essential for international flights to/from Australia and all the economic benefits that flow on to the broader economy, particularly tourism.

In preparation for bilateral air services talks, Infrastructure undertakes extensive consultation with our major airlines, airports, tourism groups and other Government Agencies including the Department of Foreign Affairs and Trade (DFAT), and the Australian Trade Commission (Austrade). Advice from these consultations is taken into account in developing a proposed negotiating mandate that reflects Australia's national interest and the Government's policy settings.

As a regulator, Infrastructure does not have a role in attracting airline services to Australia. The decision to operate a service is a commercial decision for an airline, and may involve private commercial negotiations between airlines, airports and state and local governments.

Tourism Australia is the Australian Government agency responsible for attracting international visitors to Australia through the promotion of Australia as a tourism destination,

and as a tourism promotional authority, Tourism Australia is active in seeking to attract airline services to Australia.

The current state of Australia's bilateral air services arrangements

There are currently no markets in which existing bilateral arrangements prevent airlines from adding services to/from Australia.

In some markets, airlines are not able to add services to/from Australia's Major Gateways of Brisbane, Sydney, Melbourne and Perth; in most cases it is foreign airlines that are constrained, but in others Australian airlines are constrained. In all of these cases, the Australian Government's policy of negotiating (where possible) open access to/from all international airports in Australia other than the Major Gateways means that even if an airline is constrained in adding flights to a Major Gateway, it can add flights to a smaller/regional gateway such as Adelaide, Cairns, Darwin or the Gold Coast.

Attachment A contains a Fact Sheet, prepared by Infrastructure, which sets out foreign airline capacity entitlements in Australia's 15 largest Uplift/Discharge markets for inbound traffic and the capacity entitlements and growth potential already available to foreign airlines.

As shown in Attachment A, there are only a limited number of markets in which airlines are not currently able to increase services to Australia's major gateways. Infrastructure is aware of all of these markets, and in accordance with Government policy, actively prioritises consultations with the relevant foreign governments. However, it is important to acknowledge that the bilateral system is not a one-way street but based on negotiation between governments. There are many different approaches to aviation negotiations amongst our bilateral partners, and the government is unable to force foreign counterparts to accept Australia's policy, even on key issues such as the concept of keeping capacity entitlements ahead of airline demand.

It is also important to acknowledge that bilateral air services negotiations are not just negotiations to make it possible for foreign airlines to increase flights to Australia. Bilateral air services arrangements negotiate the full legal framework for the operation of flights, covering safety, security, border protection and other matters, as well as negotiating the commercial rights available to airlines of both sides.

In many of the markets where foreign airline growth is constrained, growth in passenger numbers is not. In Australia's very open and competitive market there is substantial scope for passenger flows to move via third countries on sixth freedom services. This free movement of traffic flows is in part due to the Australian Government's policies of promoting a liberal and competitive environment across the board.

This not only increases access to Australia by allowing a variety of airlines to operate in the market, but also helps facilitate competition on the route/s.

The Australian aviation market and barriers to growth

One of the myths among many airline industry commentators is that liberalisation of the international market will always lead to more flights. Liberalisation is not about guaranteeing more flights - it is about letting market forces operate and allowing airlines to respond to supply and demand in a competitive environment. A liberalised environment allows airlines not only to add additional services but also to withdraw them again as the market dictates.

The international aviation market is highly competitive and at times irrational. With the recent introduction of multiple low-cost carriers serving nearby markets, Australia has seen long-haul international airfares drop to short-haul domestic prices. This may be desirable for many aviation stakeholders, including airports and the tourism industry, and certainly

benefits the Australian public who enjoy cheap access to international travel. But the dumping of excessive aviation capacity into Australia by some airlines has the potential to distort the market and in the long term, damage the profitability of the aviation industry as a whole. Extended periods of discounting and loss-making will not only impact airlines; it will eventually flow through to airports and the tourism industry as airlines rationalise unsustainable routes.

Today (in contrast to the early post-war years of the development of modern air travel) airlines, even state-owned airlines, are businesses rather than government-run public utilities. It is therefore important that airlines have an ability to make a profit within a competitive marketplace. New and existing routes are not a public service but a product offering that must make a financial return.

Because of this, in the majority of cases, it is not regulation or bilateral restrictions that act as a barrier to airlines increasing international air services to/from Australia – it is the commercial reality of the market.

In a market in which airlines can add services on new routes, or increase capacity on existing routes, airlines will move to increase their commitment to a particular market only if they satisfy themselves that the route is commercially viable. In support of this, Australian airports, state and local governments, and Tourism Australia, undertake significant work to market and sell particular route opportunities to airlines, at times offering ‘incentives’ packages to support the launch of a new route. The prevalence of this practice highlights that the barrier to new services being launched is (mostly) not a matter of regulation, but a matter of commercial viability.

Removing regulatory barriers at regional international airports

Successive Australian Governments have pursued a policy approach of seeking to provide Australian and foreign airlines with open access to/from Australia’s smaller international airports. To do this, Australia routinely negotiates the ‘Regional Package’ in its air services arrangements which provides open capacity entitlements to all points outside Brisbane, Sydney, Melbourne (both Melbourne Airport and Avalon Airport) and Perth. Under the Regional Package, international airlines can operate unlimited services to/from all other international airports, without ‘using up’ the capacity entitlements available to serve the Major Gateways. This is available to airlines of many economies, including Singapore, Malaysia, Hong Kong, Indonesia, Thailand, China and the Philippines among others.

The Regional Package is designed to remove regulatory barriers to airlines serving regional destinations; as with liberalisation in general, simply having traffic rights and/or capacity available does not guarantee services to these points. Ultimately, while some regional airports are attractive to international airlines, smaller destinations are often less commercially attractive than larger airports.

In addition to the Regional Package, the Australian Government has a well-established policy of negotiating ‘own stop-over rights’ whenever possible, to support smaller international airports. These rights allow airlines to include stopovers at multiple Australian locations as a part of an international journey. Own stop-over rights are a limited exception to the general prohibition on cabotage, which reserves the Australian domestic market for Australian-based airlines operating under Australian regulatory oversight. For example, an airline from the Philippines is permitted to carry a visitor from the Philippines to Brisbane with a stop-over in Darwin, including carrying that foreign visitor on what would otherwise be a purely domestic sector, provided the overall journey is a through international journey. Domestic own stop-over rights are included in most of Australia’s air services arrangements; their limited uptake

reflects the commercially challenging proposition of multi-stop international services, in comparison to non-stop services.

Tourism objectives

Aviation and tourism are intrinsically linked but the objectives of the two sectors do not necessarily align. The Minister for Infrastructure and Regional Development considers the broader national interest on a case-by-case basis when determining Australia's negotiating position at air services talks. A key aspect of this assessment (and indeed during the negotiations themselves) is to ensure Australian airlines have a comparable opportunity to compete in foreign markets and to allow them greater flexibility in operating services and building their strategic alliances. As a result, Infrastructure pursues a holistic approach to market deregulation that does not focus exclusively on short-term tourism priorities, such as 'securing' a new air service on a specific route.

Despite these broad considerations, the Government does not seek to use the bilateral system as a constraining framework. Over the years, a very liberal market has developed in Australia, one of the most liberal in the world. Around 50 per cent of all travellers coming to Australia do so under an open skies or open capacity agreement.

The Australian Government and tourism industry participants have set targets for the Australia tourism sector under the Tourism 2020 Strategy. Facilitating growth in aviation capacity is an important aspect of this strategy, with a target of growing operated seat capacity to/from Australia by 40-50% over the period 2009-2020. But aviation is only one aspect. Given the aviation industry's strong progress towards its 2020 goal, investing in Australia's tourism product and developing the right incentives for that investment is also an important consideration in meeting the goals of Tourism 2020. Growth in aviation services alone will not deliver the long-term goals.

Prospects for further liberalisation

On occasions, some industry commentators argue for 'sweeping aside' the bilateral system, or press the Australian Government to do more to liberalise the international aviation market. This view is based on a presumption that other governments are all trying to push forward on liberalising the international industry. In many other parts of the world, governments are working to wind back past liberalising measures by imposing new regulation aimed at so-called 'fair competition', new controls on consumer service standards, or other measures that undermine the concept of a market-driven aviation system. Against this emerging anti-competitive, protectionist sentiment, Australia's market-driven approach to liberalisation remains one of the most open in the world.

The existing bilateral system has a valuable role to play in promoting competition and diversity in international air services. Far from increasing flights to Australia, reforming or abolishing the bilateral system could in fact consolidate global airline ownership and rationalise existing air routes. For end-of-line destinations like Australia, the bilateral system has proved effective in ensuring international services continue.

The international tourism industry in regional economies

Tourism plays an important role in regional economic development, with 46 cents in every tourist dollar spent in regional Australia.¹ Tourism is often location-specific, with many major destinations situated in regional areas such as Uluru, the Great Barrier Reef and the Great Ocean Road.

¹ Tourism Australia, *Tourism 2020 overview*, 2011.

While Sydney, Melbourne, Brisbane and the Gold Coast have large absolute visitor numbers and expenditure, some regions are more dependent on tourism as it comprises a greater share of their economy. For example, Tropical North Queensland attracts fewer total visitors than Sydney, however tourism accounts for a large share of economic activity in that region.²

Many Regional Development Australia Committees (RDAs) have identified tourism as an industry that makes an important contribution to their regional economy. This is particularly important in regions experiencing decline in traditional industries, or with an identified link between tourism and local products and assets.

Given the importance of tourism to regional Australia, Government initiatives which promote international tourism, such as information and marketing, tourism research, grants for events or activities and direct support for tourism businesses, have the potential to contribute greatly to regional economic development, where the investments have clear economic benefits and support the long term strategic plans of the region.

In addition, regional tourism areas are spread across the length and breadth of Australia making accessibility a key issue. Whilst many tourists understand the travel times and distances involved in reaching regional destinations in Australia, investment in infrastructure could make travel to remote destinations more convenient and attractive, particularly for time-constrained visitors. Investment into transport infrastructure, such as roads and airports, can help link regions to international gateways and encourage international visitors to go beyond the capital cities.

Transport security issues

Within Infrastructure, the Office of Transport Security (OTS) is the regulator of Australia's aviation security and plays an important role in supporting Australia's economic and social prosperity.

A key part of this involves the facilitation of safe and secure air travel – both domestically and internationally. It is also responsible for ensuring that Australia's aviation industry meets international security standards.

OTS works closely with international partners to establish an integrated, global approach to aviation security, recognising the importance of balancing security with passenger facilitation. Providing industry with a single, internationally-recognised regulatory framework for aviation security helps reduce the costs associated with international air travel and increases traveller confidence in Australia's aviation industry.

In September this year Infrastructure released the *Transport Security Outlook to 2025*. The Outlook provides a five to ten year forecast for transport security in Australia. It predicts continued global economic growth, and projects that trade and travel volumes will increase and become more complex. This will, however, be coupled with security threats that endure and adapt. The Outlook emphasises the crucial role effective and efficient transport security will play in supporting Australia's economic and social prosperity into the future.

One of the key implications from the Outlook is the need to develop a more risk-based and cost-effective approach to maintaining sustainable and secure aviation into the future. Consistent with this, Infrastructure is starting to look at options for structural changes to the current regulatory framework for aviation security.

With passenger numbers to and from Australia expected to double by 2030, OTS is particularly focused on opportunities to move from the current one-size-fits-all structure to a

² Tourism Research Australia discusses this in its 2011 report, *The economic importance of tourism in Australia's regions*.

more risk-based, proportionate approach to aviation security regulation that is better adapted to meet Australia's needs.

Ultimately, we are looking to introduce reforms which will make the regulatory burden on industry participants more proportionate to their role in Australia's aviation industry, and ensure that both industry and government are able to utilise resources as efficiently and effectively as possible to manage aviation security.

This, in turn, should help industry to meet the projected increase in demand for travel to and from Australia, and ensure that aviation security standards can be maintained with minimal impact on travellers.



Australian Government

Department of Infrastructure and Regional Development

Growth Potential for Foreign Airlines

Existing bilateral markets

Markets served by a foreign airline with their own aircraft during the Northern Summer 2015 season

Market	Capacity limit ¹	In use ²	Available	Growth potential
Brunei	Majors: 23 services Others: Open	7 services 0 services	16 services Unlimited	229% Unlimited
Canada	3,000 seats	1,969 seats	1,031 seats	52%
Chile	4,000 seats	1,806 seats	2,194 seats	121%
China	Majors: 53,000 seats ⁴ Others: Open	19,806 seats 0 seats	33,194 seats Unlimited	168% Unlimited
Fiji	Majors: 6,000 seats Others: Open	6,312 seats 0 seats	0 seats Unlimited	0% Unlimited
Hong Kong	Majors: 70 services Others: Open	70 services 4 services	0 services Unlimited	0% Unlimited
India	6,500 seats	1,792 seats	4,708 seats	263%
Indonesia	Majors: 25,000 seats ³ Others: Open	14,746 seats 1,260 seats	10,254 seats Unlimited	70% Unlimited
Japan	Open	7 services	Unlimited	Unlimited
Korea	Majors: 8,500 seats ⁴ Others: Open	4,912 seats 0 seats	3,588 seats Unlimited	73% Unlimited
Malaysia	Majors: 33,000 seats Others: Open	29,275 seats 5,284 seats	3,725 seats Unlimited	13% Unlimited
Mauritius	Majors: 7 services Others: Open	3 services 0 services	4 services Unlimited	133% Unlimited
Nauru	Majors: 7 services ⁵ Others: Open	3 services 0 services	4 services Unlimited	133% Unlimited
New Caledonia	2,400 seats	1,696 seats	704 seats	42%
New Zealand	Open	33,952 seats	Unlimited	Unlimited
Market	Capacity limit ¹	In use ²	Available	Growth potential

¹ All figures are on an 'each way, each week' basis; sub-limits may apply in some markets.

² Capacity utilisation is based on approved timetables as at the start of the Northern Summer 2015 scheduling season. Quoted figures are the maximum utilisation that occurs during the season.

³ Additional capacity for triangulated services is also available under the Enhanced Regional Package.

⁴ Existing arrangements provide for additional, phased capacity in future scheduling seasons.

⁵ Interim arrangements pending entry into effect.

PNG	3,520 seats	3,855 seats	520 seats	17%
Philippines	Majors: 8,300 seats ⁴	5,721 seats	2,579 seats	45%
	Others: Open	0 seats	Unlimited	Unlimited
Qatar	Majors: 14 services	14 services	0 services	0%
	Others: Open	0 services	Unlimited	Unlimited
Samoa	1,000 seats	704 seats	296 seats	42%
Singapore	Open	47,870 seats	Unlimited	Unlimited
Solomon Islands	Majors: 2,000 seats	544 seats	1,456 seats	268%
	Others: Open	0 services	Unlimited	Unlimited
South Africa	Majors: 21 services	7 services	14 services	200%
	Others: Open	0 services	Unlimited	Unlimited
Taiwan	Majors: 6,000 seats	2,960 seats	3,040 seats	103%
	Others: Open	0 services	Unlimited	Unlimited
Thailand	Majors: 20,000 seats ⁵	14,397 seats	5,603 seats	39%
	Others: Open	0 seats	Unlimited	Unlimited
UAE	Majors: 154 services ³	116 services	38 services	33%
	Others: Open	7 services	Unlimited	Unlimited
UK	Open	7 services	Unlimited	Unlimited
USA	Open	41 services	Unlimited	Unlimited
Vanuatu	Majors: 3,400 seats ⁴	1,700 seats	1,700 seats	100%
	Others: Open	0 seats	Unlimited	Unlimited
Vietnam	Majors: 28 services ³	14 services	14 services	100%
	Others: Open	0 services	Unlimited	Unlimited

¹ All figures are on an 'each way, each week' basis; sub-limits may apply in some markets.

² Capacity utilisation is based on approved timetables as at the start of the Northern Summer 2015 scheduling season.

Quoted figures are the maximum utilisation that occurs during the season.

³ Additional capacity for triangulated services is also available under the Enhanced Regional Package.

⁴ Existing arrangements provide for additional, phased capacity in future scheduling seasons.

⁵ Interim arrangements pending entry into effect.

Unserved Markets

Markets without own-operated foreign airline services to Australia (Northern Summer 2015)

Market	Capacity limit ¹	Market	Capacity limit ¹
Argentina	2,800 seats	Kenya	Majors: 7 services Others: Open
Austria	Majors: 5,600 seats Others: Open	Kuwait	Majors: 7 services ² Others: Open
Bahrain	Majors: 7 services Others: Open	Laos	Majors: 7 services ² Others: Open
Bangladesh	5 services	Lebanon	2 services
Belgium	Majors: 7 services Others: Open	Macau	3 services
Brazil	14 services	Malta	Majors: 2 services Others: Open
Burma	Majors: 7 services Others: Open	Mexico	Majors: 4 services Others: Open
Cambodia	Majors: 7 services ² Others: 7 services	Netherlands	2,400 seats
Cook Islands	3,000 seats	Niue	500 seats
Croatia	Majors: 7 services Others: Open	Norway	2,800 seats
Czech Republic	Majors: 7 services Others: Open	Oman	Majors: 4 services ² Others: Open
Denmark	2,800 seats	Pakistan	7 services
Egypt	Majors: 7 services Others: Open	Palau	1,200 seats
Finland	2,800 seats	Peru	7 services
France	3 services	Russia	2 services
France (Polynesia)	7 services	Saudi Arabia	Majors: 4 services ² Others: Open
Germany	25 services	Sri Lanka	Majors: 11 services Others: Open
Greece	2,100 seats	Sweden	2,800 seats
Hungary	Majors: 7 services Others: Open	Switzerland	Open
Ireland	Majors: 7 services Others: Open	Tonga	Majors: 600 seats Others: Open
Italy	7 services	Turkey	5 services
Jordan	Majors: 7 services ² Others: Open	Zimbabwe	1,600 seats

¹ All figures are on an 'each way, each week' basis; sub-limits may apply in some markets.

² Additional capacity for triangulated services is also available under the Enhanced Regional Package.