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Executive Summary

- 1 Effective international air services are vital to Australia's business, trade and tourism competitiveness on a global scale.
- 2 **Victoria's business, trade, tourism and cultural strategies recognise the necessity of direct and same plane services to key markets**
- 3 To achieve effective and strategically important air services, the Victorian Government continues to work directly with Australian authorities and airlines, but since 1993, increasingly with foreign governments and airlines. These strategies also recognise the need for existing carriers to Melbourne to operate profitably, grow and deliver net benefits to Southern Australia.
- 4 Since 1993, Victoria's involvement in airline negotiations has delivered an additional 58 weekly services to Melbourne of which 9 have been provided by Australian carriers. These results have ramifications in formulating a '*national*' position on specific bilateral negotiations.
- 5 Improvements in Australia's management of international air services are recommended.
 - There is an urgent need to create an effective Commonwealth-State consultative process.
 - Amendments to specific bilateral provisions to create a more competitive aviation environment are raised.
 - Impediments to dedicated air freighter services should be removed.
 - Measures are needed to encourage the development of charter services in the Asia-Pacific region.
 - Amendments are proposed to the method by which the International Air Services Commission allocated capacity to Australian carriers.
- 6 The Victorian Government has commented selectively on the Inquiry's Terms of Reference, drawing on experience it can bring to the Inquiry.

Part A discusses international aviation developments of interest to the Victorian Government.

Part B summarises Victoria's position on specific elements of Australia's management of international aviation rights and Commonwealth-State consultative processes.

PART A

Introduction - Overview of International Air Services

- 1 The Victorian Government has a vital interest in the management of Australia's international air services because of their direct impact on Victoria's competitiveness, robustness and responsiveness as a business, trade, tourism and cultural centre.
- 2 In seeking to ensure the profitability of, and maximise the benefits to Victoria and Southern Australia from new and existing air services, Victoria's international aviation strategy recognises the need to be an active player in air services agreement (ASA) negotiations and other regulatory matters.
- 3 Victoria's business, trade and tourism strategies recognise the need for effective and efficient air services provided by Australian and foreign carriers, to maximise the State's growth potential and ensure regional and global competitiveness.
- 4 The aviation industry is among the most competitive and dynamic in the world, with developments and trends in Europe, North America and Asia influencing the direction of the industry in Australia and raising a range of issues for consideration including:
 - Foreign ownership and operation of Australia's carriers, and access to Australian air entitlements;
 - Continued growth in international hubs in Asia serving Australia as an end of line destination;
 - Consolidation of hub-spoke/complexing systems by Qantas and Ansett, reinforced by complex commercial and operational alliances with international airlines;
 - Privatisation of major airports; and
 - Establishment of a single Australia-New Zealand domestic aviation market.
- 5 With the above in mind, Victoria must act to maximise the benefits for the State and the Southern Australia market served through its gateway. **The difficulty of this task is not lessened by Australia's physical characteristics and small originating population.**

International Aviation Markets

- 6 As with most other States, the development of international passenger traffic to Victoria has centred on the traditional markets of Europe and North America. While these markets remain important, in relative terms the contribution of traditional markets is declining as Australia integrates with the Asia-Pacific region.
- 7 The ‘*low*’ and ‘*most likely*’ forecast scenarios for intra-regional Asia-Pacific passenger traffic produced by the Asia/Pacific Area Traffic Forecasting Group have indicative growth rates of 5.2% p.a. (55.2 million to 131.5 million) and 6.4% p.a. (55.2 million to 157.3 million) respectively, over the seventeen year period to 2010 under each scenario. Although these forecasts predate the current Asian currency crisis, they highlight the:
- Potential size and value of intra-regional traffic; the world’s fastest growing market.
 - Continuing growth in major Asian markets, with Australia’s relative contribution declining over time.
- 8 These characteristics have significance for international aviation policy due to:
- The extent to which restricted access from the larger regional markets constrains inbound market potential; and
 - Increasing acceptance by Australian authorities that ASA negotiations relate less to inter-country issues and more to Australia’s position in regional markets and accessing the global integrated networks of foreign carriers.
- 9 Australia’s growth as an international destination also makes a significant contribution to the growth of domestic air services on which Victoria must rely for the transfer of a large proportion of international visitors.
- 10 Victoria is concerned that Melbourne be a key national gateway and market, with adequate connections with major trading markets - Japan, China, Taiwan and Korea. The Table below shows the frequency of weekly inbound direct or same aircraft flights to selected Australian ports (corrected for code share services), and illustrates the imbalance in services from selected key markets to Southern Australia.

	Tokyo	Osaka	Taipei	Hong Kong	Guangzhou	Shanghai	Beijing	Seoul	Total
Melbourne	0	0	2	12	3	4	4	0	23
Adelaide	0	0	0	2	0	0	0	0	2
Sydney	16	24	9	24	3	13	12	11	110
Brisbane	14	25	8	9	2	2	2	6	68
Cairns	14	1	1	8	0	0	0	0	24

Source: Official Airlines Guide March 1998

- 11 The Table illustrates the need for the reforms suggested in this paper, and the logic of Victoria's aviation strategy which highlights the importance of:
- Direct and same plane services to spur trade, business and tourism; and,
 - Direct working relations with foreign governments and international airlines in selected markets.
- 12 The success of this strategy is illustrated in the following Table which summarises additional new weekly services to Melbourne between January 1993 and present.

	No. New Weekly Services	New Carriers	New Markets
Australian Carriers	9	1 Ansett International	Africa China Jakarta (suspended)
Foreign Carriers	49	5 Emirates ALs Air Mauritius Vietnam Airlines Merpati Nusantara EVA Air	Middle East Africa Vietnam China Taiwan Jakarta
TOTAL	58	6	5

PART B

Commonwealth-State Consultative Processes

Position

Improve Commonwealth-State consultative processes.

Support the Department of Transport and Regional Development (DOT&RD) as the lead agency on international air services.

Explanation

Consultative Processes and Structures

Commonwealth-State consultation on ASA negotiations is conducted through either the Aviation Working Group of the Standing Committee on Transport (AWSCOT) or the Tourism Aviation Group (TAG) of the Office of National Tourism within the Department of Industry, Science and Tourism (DIST). As passenger and marketing considerations are of primary importance to airlines, the consultative process mostly involves TAG.

Victoria's experience is that, in their current form, AWSCOT and TAG provide a limited forum on aviation. They have limited policy and operational value, and function to provide the Commonwealth with State and industry views as part of its own internal consultative process. They are not mechanisms for facilitating two-way information flows.

The basis for membership of AWSCOT and TAG is not clear, meetings are not minuted, are irregular and result in limited inter-sessional activity. Notification and advice on issues important to States (eg, international passenger card processing, Australian Competition and Consumer Commission consideration of airline alliances, airport privatisation, and the current Inquiry) is rarely disseminated by the AWSCOT and TAG fora which have been unable to provide States with a Commonwealth perspective on such issues.

For the vast majority of ASA negotiations, State representatives to TAG receive notification and are invited to provide submissions for a 'consolidated' DIST submission to DOT&RD and are usually provided with a DOT&RD summary review of the market involved. DIST's submissions are not available to TAG members. DIST representatives accompany ASA negotiators, but detailed negotiated outcomes are better explained by DOT&RD.

Against this background, the Victorian Government has chosen to send its ASA submissions directly to DOT&RD on a confidential basis. It is understood that Queensland and South Australia do the same.

There may be value in reconstituting AWSCOT and TAG as information exchange fora in their own right, detached from the ASA negotiation process.

Access to Air Services Agreements

Current DOT&RD policy is to restrict access to ASAs and relevant documents, thus creating a situation where all parties are reliant on DOT&RD advice. Australia's carriers also hold copies of agreements.

As a matter of principal, the Victorian Government believes that states and territories should have right of access to ASAs and relevant documentation. Streamlined access would also greatly improve understanding of bilateral issues, improve the quality of, and quicken advice to DOT&RD.

In practice, ASAs are obtainable from various sources, thus making the current Commonwealth policy and practise redundant.

Notification of Air Services Agreement Negotiations

Public knowledge of ASA negotiations is limited by the current consultative procedures.

Consideration should be given to DOT&RD advertising the ASA negotiating timetable and inviting submissions akin to the process used by the IASC, noting that the IASC process has not produced a flood of submissions.

Recommendations

- *The Commonwealth's consultative processes be streamlined with States having direct input to DOT&RD.*
- *As the department with negotiating responsibility, DOT&RD continue to be the lead agency for ASA negotiations.*
- *DOT&RD make ASAs and other relevant documentation available to States and airport owners on a confidential basis.*
- *Submissions by States on up-coming ASAs be held in strict confidence and not provided to non-governmental delegation members.*
- *The role and functions of AWSCOT and TAG be independently reviewed.*
- *Consideration being given to include public and industry involvement in ASA negotiations, akin to the current IASC advertising process.*

Dedicated Air Freight Capacity

Position

Seek further liberalisation of dedicated air freight capacity in Air Services Agreements.

Explanation

Australia's potential to build trade and business globally is tied closely to the effectiveness of transport modes, including air freight. Highly competitive air freight systems will increase Australia's export competitiveness.

Negotiated air freight capacity has increased in recent years and, in aggregate terms, well exceeds actual used capacity. This situation raises the question as to whether the Commonwealth should now give consideration to an automatic approvals process for dedicated air freight services.

Recommendation

Consideration be given to further liberalisation of dedicated air freight services in Air Services Agreements.

Specific Air Services Agreement Provisions

Position

Consideration be given to revising selective ASA provisions.

Explanation

Several provisions in current ASAs are in need of revision because in isolation or in combination, they have a major negative impact on air services to Southern Australia. The key provisions are summarised below:

- ***Remove port-specific provisions in ASAs***

The restriction of foreign carriers to specified points has a direct impact on the commercial value of privatised airports. The Victorian Government believes that port-specific provisions should be removed except where there may be a slot availability problem or some other operational limitation.

- ***Remove own-stop over restrictions***

Own-stop over rights are critical for foreign carriers. This allows airlines to market multiple Australian points and reduces costs to inbound tour operators, thus improving Australia's competitiveness as an international destination.

- ***Minimise intermediate point restrictions where-ever possible, at least to provide foreign carriers the same capacity entitlements enjoyed by Australian carriers***

Intermediate point restrictions affect the commercial viability of inbound carriers with flow-on impacts on their ability to serve more than one Australian point.

- ***Liberalise Trans-Tasman access from Southern Australia***

Restrictions on fifth freedom rights across the Tasman results in Australia's southern points becoming an 'end of line' destination for foreign carriers and a disincentive to extend services from hubs in Sydney or Brisbane. Also, there is a growing trend for Japanese and North Asian tourists to combine Australia and New Zealand markets, thus placing Australia's southern points at a comparative disadvantage to Australia's major northern points.

- ***As appropriate, specify seat numbers in preference to units of aircraft capacity***

The use of seat numbers in ASAs may be helpful both in the negotiation process and with respect to IASC capacity allocations.

Recommendation

Consideration be given to the above amendments.

Charter Policy and Services

Position

Encourage the development of an international charter industry in the Asia-Pacific region.

Explanation

Growth and Structure

Beginning in the 1970s, international charter airlines offering inclusive packages have grown rapidly in Europe and North America, significantly expanding the leisure travel market. Charter services have now developed in Europe to the point that the legal distinction between scheduled and charter services has been removed. There are in excess of 20 charter airlines based in Europe.

The growth of charter airlines is based on vertical integration strategies that bring together tour operators, travel agents and accommodation operators, whereas scheduled carriers have tended to adopt horizontal strategies involving airline alliances. This fundamental structural difference gives charter operators lower operating cost structures and greater flexibility to serve seasonal markets.

European charters grew quickly by offering consumers low cost inclusive holidays to short-haul Mediterranean resorts not serviced by major carriers. Growth in leisure traffic has now developed to a level where city pairs competition between scheduled and charter carriers is routine.

In contrast to European experience, because of Australia's geography and the mono-destinational nature of the leisure market, the development of inbound charter traffic will require city pairs competition with scheduled carriers, but serving a new emerging leisure market.

For a variety of reasons, the Asia-Pacific region is under-served by charter operators despite Australia being an attractive intra-regional destination.

Legislation and Passenger Charter Guidelines

The *Air Navigation Act 1920*, provides the legislative framework for the management of international charter air services. Within this framework, there are two matters of concern relating to the development of inbound charter services.

The first concern relates to the priority given to the impact of charters on scheduled services. Charter applications are assessed against *International Passenger Charter Flight* policy guidelines (DOT&RD, June 1996). Under the guidelines, charter approval can be expected, provided services will be operated between city pairs not served by scheduled passenger services or likely to be served in the near future. These provisions need to be liberalised to allow charters to develop low cost leisure and major event markets.

The second concern relates to the passenger indemnity provisions contained in the *Air Navigation Act*. Section 15c (2) specifies the information to be contained in a charter application, and requires the applicant to demonstrate evidence that charter passengers will be indemnified for any loss arising from the failure of the charter operator. While recognising the intention of this discretionary measure, the Victorian Government believes its requirement by DOT&RD may act as a disincentive for charters and cast charter operators in an unfavourable light.

Freight Charters

As discussed elsewhere, the Victorian Government requests that consideration be given to further liberalisation of dedicated air freight capacity. This would require appropriate revision to the current *International Passenger Charter Flight* policy guidelines.

Recommendations

Encourage the development of the charter airline industry in the Asia-Pacific region through:

- *amendments to the Air Navigation Act 1920.*
- *revisions to the Guidelines for International Passenger Charter Flights.*

Encourage further liberalisation of dedicated air freight capacity.

International Air Services Commission (IASC)

Position

Support:

- *the continued operation of the IASC;*
- *the new entrant policy; and*
- *selective revisions to the allocation of negotiated capacity.*

Explanation

The Victorian Government supports the continued operation of the IASC in accordance with the *International Air Services Commission Act 1992*. The Government recognises the need for an independent body to consider and manage the allocation of shelf capacity to Australian carriers, especially noting the significant strategic and commercial value to airlines that flow from these actions.

The Victorian Government also supports the continued operation of the New Entrant Policy (April 1997), particularly as a mechanism to foster competition between carriers and to maximise the effectiveness of negotiated operating capacity.

The Victorian Government proposes two amendments to the IASC's practice of allocating capacity, consistent with IASC policies relating to new entrants, priority being given to actual operating services over code shares, and the need to ensure effective capacity utilisation, viz:

- That '*interim determination*' status be applied to capacity allocations for third party code share operations in markets not served by Australian carriers so that possible new Australian entrants could contest capacity allocation without unnecessary delays; and
- Where a carrier reduces or withdraws significant services in preference to other markets (and commercial opportunities), the unused capacity reverts to shelf capacity after a fixed short-term period (e.g. end of the schedule period).

Recommendations

The IASC's roles and functions remain substantially unchanged.

Consideration be given to the capacity allocation concepts raised above.

Aviation Legislation

Position

Review and consolidate Australia's aviation legislative framework.

Explanation

Australia's aviation regulatory framework is contained within a board range of documents, eg. Civil Aviation Act, Air Navigation Act, Air Navigation Regulations, Civil Aviation Regulations, Civil Aviation Orders, Aeronautical Information Publications, advisory publications and departmental guidelines etc. In some instances, the requirements between documents may be contradictory and in practise unworkable.

It is Victoria's view that as the aviation industry becomes increasingly global, it is necessary for Australia to both consolidate its regulatory framework and align it with internationally accepted best practise as specified in the ICAO Annexes and the *Chicago Convention*.

Recommendation

Review and consolidate Australia's aviation legislative framework, for example in accordance with ICAO Annexes.