

ACT GOVERNMENT SUBMISSION

INDUSTRY COMMISSION INQUIRY

INTERNATIONAL AIR SERVICES

**Chief Minister's Department
April 1998**

Background

The Industry Commission has commenced an inquiry into International Air Services and issued an invitation for the ACT Government to participate. The Commission is due to report to the Commonwealth Government by 12 September 1998.

2. The inquiry is founded in the Commonwealth's competition principles legislation review program. The ACT's participation in the inquiry is consistent with its interests in developing multi-user transport infrastructure and with the sale of Canberra Airport.

Issues

3. While Canberra is not an international gateway and is therefore not directly affected by the bilateral system of Air Service Agreements (ASAs), the ACT is interested in establishing international charters. As such the ACT seeks an outcome in which charter services are accepted as test arrangements for scheduled services in the future. As a consequence the ACT seeks adequate capacity or other satisfactory arrangements out of locations such as Japan, China and other Asian countries, as well as other locations in general, to ensure that there are no barriers in the negotiation of charter services.

4. The current ASA arrangement appears to be moving to the provision of increased capacity on most air routes. Ultimately there would appear to be benefits in having the market unrestricted so that as much competition as possible would be permitted to drive down travel and freight costs. The creation of new markets could also occur more easily.

5. However it would not appear sensible to unilaterally remove Australian controls if they can be used as a means of negotiating entry into markets which are currently restricted.

6. Against this it is noted that the recent Department of Transport request for submissions on the 1998 ASA negotiations included the establishment of new destinations and encouraging tourism as key aims of the ASA process. These aims are particularly relevant to the ACT which is at the start-point of a strategy to establish Canberra as an international tourism destination:

- designation of Canberra Airport as a restricted international airport (this has been agreed with the Commonwealth Government and is awaiting implementation);
- in the short term, arrangement of special event trans-Tasman, South East Asian and Asian tourist based charters;
- in the medium term, growth of charter traffic to regular schedules; and
- in the longer term, establishment of scheduled international flights.

7. The negotiation of charter flights has been inhibited by the leasing arrangements of the Canberra Airport terminal which effectively give control of the facility to the two major domestic airlines. As a result the scheduling of charters into Canberra is subject to the airlines' agreement on terminal availability and must be restricted to times that are convenient to them.

8. Similarly the handling cost of charters is in the hands of the domestic airline which agrees to make terminal space available

9. Since direct charters to regional centres compete with scheduled international flights to established destinations - usually capital cities - the prevailing arrangements result in undue control by current operators over potential competition; the Compass/Southern Cross experience would appear to exemplify this situation.

10. While not directly relevant to the current Industry Commission inquiry ACT Government research indicates that existing terminal monopolies, combined with control of computer reservation systems, have a similar effect on the domestic market and are perceived to be a major reason militating against a regional airline establishing in Canberra.

11. The ACT Government has prevailed upon potential lessees of Canberra airport to provide for users other than the major airlines. The established leasing arrangements will probably not permit the use of existing facilities, which will require the new owners to negotiate an acceptable solution with the existing lessees or to invest in additional multi-user facilities. The ACT Government notes that similar terminal arrangements prevail at most of the major Australian airports.

Summary

12. The ACT supports an arrangement in which international charters are freely accepted as tests for future charter services, and where there is adequate capacity to enable additional scheduled services to be implemented without extensive approval times. The issue of bi-lateral agreements needs to be considered in parallel with other access issues such as the availability of terminal space and ground facilities and the control of computer reservation systems.