

22 April 1998

Prof. Richard Snape
International Air Services Inquiry
Industry Commission
Locked Bag 2
Collins Street East Post Office
MELBOURNE VIC 8003

CAIRNS PORT AUTHORITY

Dear Sir

INTERNATIONAL AIR SERVICES INQUIRY

I refer to the IC's issues paper dated December 1997 and subsequent public hearings in March 1998.

CPA was unable to be represented at the inquiry hearings, although we did receive 'report backs' from those hearings.

CPA now forwards the attached submission for the Commission's consideration.

Employment and economic opportunities may well be being constrained by the present system of bilateral negotiations that tend to favour the major capital cities, but there is also a need to support those economic benefits already established in regional centres before the present negative influences put them at risk. In short, CPA believes there is a case for looking at special air service arrangements for regional Australia as a core means of achieving this.

I would like to ask that, in considering our submission, you look at coming to Cairns to discuss the specific examples referred to in our submission and to travel beyond the two "majors" to visit Australia's fifth busiest international gateway.

I look forward to your favourable consideration of our submission.

Yours faithfully

Bob Manning
Chief Executive Officer

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Cairns Port Authority
SUBMISSION TO INDUSTRY COMMISSION INQUIRY

INTO INTERNATIONAL AIR SERVICES

April 1998

We are pleased to submit the following information and suggestions to the Commission in connection with its Inquiry into International Air Services.

Importance of Cairns International Airport to the Region

Transportation links to Cairns and similar remote points have a major importance to Australia's economy and particularly to regional economies.

Cairns Airport has developed a major role in local and regional employment and in the region's economy generally.

Cairns Airport has developed into a major employer, directly and indirectly, over the past decade. It has also become a major generator of wealth to the region.

Since Cairns Airport was handed over to local interests, **over \$200 million has been spent on infrastructure**, totally without recourse to government funding. Apart from the massive flow-on job creation this created, it has established Cairns International Airport as a model regional international gateway.

Acting directly in competition with major, established gateways, Cairns International Airport has, on its own initiative, been able to generate direct international services by eight major international airlines, as well as services by Qantas, despite having a regional population of just 220,000.

As a result, Cairns International Airport is an integral part of the economy of Tropical North Queensland, as illustrated by the following statistics:

- **International inbound tourism to Cairns has pumped \$4 billion into the economy of Tropical North Queensland over the past 5 years-** and tourism is now the largest industry sector in the region;
- A 1996 study showed that the Airport directly employed almost 2,600 people, with indirect or flow-on employment totalling over 28,000 in the region;
- This accounted for 25% of all employment in the region. That is to say that **one quarter of the region's workforce** is directly or indirectly dependent on the continued success of the airport in attracting direct air services;
- Foreign exchange earnings generated by airport related activity grew to \$870 million in 1995/96. This compares with only \$225 million in 1990/91.

Current Influences on Air Services to Regional Centres

The current downturn in Asian economies and slowdown in Japan's economy threaten to seriously undermine tourism to Cairns. Attached is a summary of recent changes in direct international services to Cairns due to the current crisis.

This threat is particularly great where it is more convenient for foreign airlines to operate instead to Brisbane and Sydney - but, whilst in some cases domestic-on-carriage may be possible to Cairns, the **decreased accessibility** reduces prospects for tourism and for Cairns Airport.

There are other special considerations that limit the attractiveness to airlines of air services to remote points such as Cairns. International and domestic **tourist routes** tend to be long and thinly travelled. They also tend to be **relatively low yielding**, owing to their high proportion of **discretionary traffic**.

It is an important feature of Cairns - as the major gateway to Tropical North Queensland - that the geographical scale of this region is greater than many relatively large countries, including Japan and Malaysia. Its scale and remoteness (its population is only 220,000, yet it is nearly three hours' flying time from Darwin and from Sydney, a distance which for many other countries would be a significant international flight) strongly suggest that it merits special consideration in the allocation of air service rights. Quite simply, it is unique.

Retention & Development of Regional Gateways

There is little which can be done to change these basic airline economic factors. **Nonetheless, there are still certain regulatory measures that can be taken to increase the attractiveness of Cairns to international airlines and reverse the present trend of service withdrawals.**

There is a pressing need for Cairns in particular to be extended any support possible through more expansive regulatory methods (while not undermining the economics of our national airlines).

The improvements we are seeking are not opportunistic proposals to seek **potential** benefits that may accrue from policy changes. They are based on a well founded need to **maintain** economic benefits and employment, which have already been established.

Unless action is taken urgently to support this vital regional activity, large numbers of jobs will be placed at risk, with considerable negative flow-on effects to the region's economy.

The Case for Cairns International Airport

There is a strong case to be made in favour of relaxing traditional regulatory controls in certain circumstances, which would benefit Cairns International Airport and Tropical North Queensland.

Specifically, we make the following suggestions:

1. Foreign airlines should be permitted to uplift and discharge traffic on domestic Australian sectors in certain circumstances.

Conditions under which such services should be permitted would include for example:

- The route in question should be between remote points of Australia;
- The service would offer a better and more convenient level of service for Australian and international travellers, where current service levels are limited in scale, frequency and regularity;
- The service should be generally offered only where there is a low level of service by Australian domestic operators;
- There should be clear and demonstrable benefits to Australian consumers and tourist potential from the operation of cabotage services; and
- There should be no substantial adverse economic impact on Australian airlines.

Such operations would potentially include:

- (i) own-stopover uplift/discharge traffic, without the need for bilateral reciprocity;
- (ii) uplift of international tourists who enter or leave Australia on other international airlines; and
- (iii) carriage of domestic passengers.

Access to these services by foreign airlines should be available on a **non-reciprocal** basis, given their intrinsic value to the Australian economy and to regional economies.

(In support of this proposition, it should be noted that:

- (i) it is highly unlikely that other countries would either be willing to grant "equivalent" domestic service rights or that they would have equivalent rights to offer, given Australia's geographic uniqueness; and
- (ii) there would be great complexity in introducing such an issue into bilateral discussions if it were to be on the normal reciprocal basis.)

We shall be happy to discuss with the Commission specific examples of where these conditions can be met **and** where benefits would accrue not only to Cairns, but also potentially to other gateways and regions.

2. Introduction of special route entry conditions for access to Cairns as an international gateway.

Although route annexes in Australia's bilateral agreements have been considerably relaxed in recent years, there is still a significant disincentive in many cases for foreign international airlines - and Australian airlines - to operate into Cairns. This is due both to lingering restrictions on gateway access and to overall capacity entitlements on international routes.

2.1 Foreign international airlines

There are several cases where limited removal of access conditions would directly assist Cairns International Airport in its efforts to encourage foreign airlines to operate to Australia and to Cairns in particular. This involves removal of Cairns from the normal route and capacity restrictions applying under bilateral air services agreements.

Again, we shall be pleased to provide the Commission with specific examples of such possibilities.

2.2 Australian airlines

While it is always attractive to encourage foreign airlines to visit Australia, Cairns International Airport fully recognises the vital role which Australia's flag carriers play in stimulating international tourism to this country.

For this reason, Australian registered carriers should, under a special regulatory regime of this nature, be freed from controls imposed by the International Air Services Commission. This freedom should extend both to direct services to/from Cairns and to connecting and code-share services linking such services to other parts of Australia.

3. International passenger charter services should be actively encouraged to Cairns, without undue restriction.

Charters offer a different product to RPTs and help to broaden the level of service into regional centres where the outbound market may not be large. The nature of charters also enables them to match service flexibility with demand, particularly, as with Cairns, where that demand is discretionary and often seasonal. In the past, such charters have been the key to development of new routes.

Whilst we recognise that the existing policy does not substantially restrict charters on most routes in terms of frequency and access, it is important that, should the policy be reviewed, the special case of gateways such as Cairns should be considered before greater restrictions are adopted.

Cairns as a tourist destination: In summary, we recommend that the Australian Government continues to **actively encourage charters on city-pair routes where RPT services do not operate by removing all possible restrictions.**

Conclusion

As identified in this submission, we have a number of specific comments that we feel would be more appropriately addressed in face-to-face discussions. We shall be pleased to make ourselves available to the Commission for such discussions at an appropriate time.

In brief, however, we believe that there is considerable urgency in implementing regulatory changes - before the negative impact of the Asian crisis and airline cutbacks seriously undermines the economy of Tropical North Queensland.

Attachment 1

Summary of Recent Flight Cutbacks- Cairns International Airport

Qantas - announced by Qantas in October 1997 (pre Asia crisis effect)

- Fukuoka
 - currently 5 flights per week, dropping to three, commencing April 1998
 - note: QF dropped one service ahead of schedule on 9 January
 - the two flights dropped from Cairns will be going direct to Sydney
 - operating B763 on the route (228 seats): .. loss of 456 seats/wk
- Chitose
 - currently 2 flights/wk all year will now not operate April - October
 - operating B763 on the route (228 seats): .. loss of 456 seats/wk
- Bangkok
 - ceased on 22 October 1997 (2 flights per week)
 - were B763 on the route (228 seats): .. loss of 456 seats/wk

Asiana Airlines/Qantas Code-share

- Seoul

- used to operate 3 flights/wk
- suspended all flights on 5 January 1998 until further notice
- were 2 x B763 on the route (236 seats) and 1 x B742 (408 seats):
 ∴ loss of 880 seats/wk

Japan Airlines (pre Asia crisis effect)

- Tokyo
 - have been code-sharing on Qantas flights since April 1997
 - were operating own B747 daily (390 seats) pre-April, going onwards to Brisbane (QF also operating onwards to BNE)
 - airlines argued that Cairns capacity not affected as the code-shared QF flight now terminates in Cairns (ie no transit passengers)
- Osaka
 - ceased in October 1997 (3 flights /wk)
 - were B763 (228 seats): ∴ loss of 684 seats

Malaysia Airlines

- Kuala Lumpur
 - currently one flight/wk, announced increasing to two in April 1998
 - introduction of second flight suspended
 - currently operating AB330 (294 seats)

Garuda Indonesia

- Jakarta/Bali
 - currently 3 flights/week, had planned to increased to 4 in April 1998, introduction of fourth flight suspended.