Melbourne Airport

Industry Commission Inquiry: International Air Services

March 1998

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Recommendations

1. Establish a clear purpose and goals for Air Service Agreements which address trade, tourism and regional development goals.

2. Align ASA processes with trade, tourism and regional development goals.

3. Improve trade and tourism sector consultation to assist ASAs address commercial opportunities

4. Review ASAs to address current Australian aviation industry trends:

    > privatised Australian airlines and airports
    > inbound tourism dominating outbound tourism
    > the contribution to the Australian economy of tourists and freight carried by foreign carriers.

5. Address the regional Australian development opportunities and needs; assess impediments to regional development under the current model and reregulate to remove those impediments.

6. Distinguish between freight, charter and scheduled air services. Develop processes to assist growth for these services.

7. Review the principle of reciprocity of capacity. The foreign trade and tourism market are bigger that the Australian market and the physical capacity of Australian air fleets is limited. Australia's trade and tourism growth should not be impeded by outdated principles or carrier capacity.

8. Unilateral reforms could include:

    > Review the purpose and economic implications of beyond rights and cobotage to understand impediments to aviation development, regional development and trade and tourism growth.

9. Remove city specifications

10. Establish clear ASA guidelines to achieve flexible agreements

11. Treat foreign carriers as partners in Australia's trade and tourism development.

BACKGROUND MELBOURNE AIRPORT.

Melbourne Airport is a major centre for economic activity in Australia. In 1996/97, Melbourne Airport served 13.7 million passengers of which 2.7 million were international passengers, and 11 million were domestic and regional passengers. In addition, over 340,000 tonnes of freight was moved both internationally and domestically. The international component of freight was worth A\$11.7 billion to the Australian economy. Consequently, Melbourne Airport is Australia's second busiest airport and a major contributor to the economy of Victoria and Australia.

Melbourne Airport's principal customer catchment area for passengers and freight includes the state of Victoria, southern NSW from Wagga Wagga to Broken Hill, eastern South Australia to Adelaide, and all of Tasmania. This broad catchment area reflects the strong regional domestic hub status of the airport, and the continuing role of Melbourne as an international gateway.

Melbourne Airport's features include:

- Excellent Federal, State and Local government cooperation in areas of planning to ensure appropriate zoning of land use. This has seen a minimal negative impact of airport operations on the local community;
- Melbourne Airport received an average of only 22 noise complaints per month for the 1997 calendar year;
- No curfew at the airport which allows 24 hour operation; and
- Australia's only major international airport which has retained domestic and international terminals in one building. This provides both commercial efficiency for airlines and passenger convenience.

Melbourne Airport's ownership:

Melbourne Airport was privatised in the first round of airport sales and on July 2 1997 ownership was transferred from the Federal Airports Corporation (FAC) to Australia Pacific Airports (Melbourne) Pty Ltd. Australia Pacific Airports (Melbourne) is a wholly owned company of Australia Pacific Airports Corporation Pty Ltd (APAC) and trades as Melbourne Airport.

APAC is wholly owned by four partners: AMP, Axiom Funds Management, Hastings Investments and BAA plc. BAA plc have the management contract for the operation of the airport.

Recent Upgrades

Melbourne Airport has undergone an extensive upgrade of its facilities during the 1990's. Some features of the upgrades to date include:

- doubling of the international terminal's passenger handling and processing capacity;
- Increase in the number of aerobridges from six to ten;

- Seating for 1,500 passengers in the international terminal;
- Redesign of the retail and hospitality facilities which increased the number of retail outlets from 10 to 40; and
- A multi storey car park which provides undercover parking for 3,500 vehicles and is connected to the terminal by covered walkways. The increased car parking space supplements a further 4,500 long term car parking spaces located 500 metres from the terminal and served by 24 hour coaches.

Current upgrades include:

- Construction of a 280 room, four star hotel with conference, meeting and hospitality facilities located above the car park (expected completion early 2000). The hotel will be managed by Hilton International. The existing Travelodge will be refurbished as a three star tourist hotel;
- A 20% increase in freighter aircraft parking space and the recent introduction of an additional freight handling operator; and
- Qantas domestic terminal upgrade which will double passenger capacity. Melbourne Airport management is supporting the Qantas project with a redesigned terminal frontage and roadway infrastructure, extensive landscaping and modification of the Qantas domestic terminal and international terminal link.

STATEMENT REGARDING MELBOURNE AIRPORT IN RELATION TO THE INQUIRY

The terms "deregulation" and "open skies" are frequently used in relation to the review of Australian aviation and specifically in relation to the Industry Commission review. These terms are generally considered as the mechanism and end result respectively of any outcome to this review.

Melbourne Airport's position supports the principle of "re-regulation" of the Air Service Agreement negotiation process. Re-regulation would ensure an appropriate alignment of the purpose and procedures currently in place, re-positioning them to maximise current and future significant commercial opportunities for tourism, air freight and regional development for Australia.

Melbourne Airport's specific responses later in this document are underpinned by the following positions on the current arrangements to air services. The Airport's philosophy can be generally divided into **Purpose, Processes and Protocols**.

PURPOSE

Why are Air Service Agreements (ASA) in place and what do they frame?

Air Service Agreements determine the volume of passengers and freight moved between Australia and a foreign country, as well as regulation of other issues such as fare tariffs and security issues. As a consequence, Australia's trade, foreign income earnings and regional development are intrinsically related to the Air Service Agreements. The purpose under which ASAs are negotiated are unclear. Due to the overall benefits to Australia, the purpose should be to increase tourism and freight. However, the process currently seems to be determined by diplomatic protocols and access rights.

PROCESSES

The ASA framework appears to have emerged from the social and economic environment of the 1950s and 1960s. This period is long passed with the aviation climate changing greatly in the interceding period. The process for negotiating air services is still in the past and needs to be reviewed urgently.

Characteristics and assumptions that underpin the process and which are no longer relevant include:

- **A single national carrier which is government owned and achieves the goals of the government.**

  Qantas has been joined by Ansett as Australia's international carriers. Qantas has been privatised, and both airlines have significant foreign ownership. As private companies their responsibilities are to their boards and shareholders, not to the national government and/or the people of Australia.

- **A single international airport**

  Many countries had one international airport that served the whole population of that country. As a continent nation, Australia was always different with multiple gateways for foreign carriers. The principal of allowing access to specified airports in Australia has always been flawed due to our multiple port status.

- **Airports operated by governments**

  Australian international airports, with the exception of Cairns, have until recently been owned by the Federal Government. For the purposes of airport specifications, the interests of the airport owners was not an issue due to the concept of common good to Australia.

Three issues remain to be dealt with - the newly privatised airports, regional development, and the question of why designated cities at all.

Airports now have a commercial interest in air services as they can constrain and restrict the commercial operations of the airport. The Conditions of sale of the airports state that:

  a) there must be unrestricted access to the airport for all aircraft; and
  b) charges are retained within a CPI formula to ensure monopoly advantages cannot be employed. Therefore, revenue growth will occur through landing frequency rather than price increases.

  Specified cities disadvantages airports, especially when the negotiations do not include airports. This is a specific example of current ASA framework not addressing change.

  Regional development is hampered through city specification. The system does not permit flexibility to respond to changes within the period of an agreement. The pattern of building hubs therefore emerges, and these may not be in the best interests of tourist distribution.

The question of why specified cities at all has to be asked. ASAs may expect designated cities because of (a) customary procedure or (b) most other countries have limited numbers of international gateways, or certainly fewer than Australia.

However, there appears to be no advantage in city specifications. Doing so only because of custom is purposeless process. Doing so because of custom without assessing the advantages or disadvantages to the purpose of the exercise - trade, tourism, regional development - is counter productive.

- **Tourism is now a significant player in the Australian economy**

The ASA framework developed in an era when there was an insignificant use of air services for tourism. Until the early 1970s travel by air was beyond the reach of the majority of the population. Tourism is now a major foreign income earner for Australia.

Australia's international tourism industry growth accelerated in the early 1980s to become a significant force in the Australian economy. On a national level inbound tourism (arriving international tourists) makes two major contributions to the Australian economy.

Firstly, it attracts foreign currency which assist with Australia's balance of payments.

Secondly, as a tertiary sector industry, tourism assists the Australian economy diversify beyond our traditional primary sectors.

Thirdly, tourism and related activity account for over 8% of Australia's gross domestic product (source: ABS, 1998 Australian Yearbook)

There are several secondary benefits, such as the volume and diversity of jobs created in the labour intensive hospitality sectors. Another is the regional opportunities created when tourists travel to locations other than the capital cities.

Significantly, tourism growth contributes to small business as well as regional development.

Employment size

Type of establishment	number of employees			
	< 5	5-49	50+	total
Hospitality Accommodation, cafes, restaurants, pubs, etc (ANZSIC 5710-5740)	4279	4105	252	8636
Travel (includes travel agency services) (ANZSIC 6641)	815	222	6	1043

Source: ABS Business Register Counts, June 1996. Supplied by Tourism Training Victoria.

Changing tourism patters

In 1990 the number of inbound tourists exceeded Australians travelling overseas for the first time and has occurred each year since. This effectively meant exports exceeded imports (inbound tourism has the same status as export industries because it earns foreign income).

The ASA framework is based on the principal of reciprocity of capacity. This presumes equal opportunity on both sides, yet the opportunity is greater for Australia since there are more tourists wishing to come to Australia than there are Australians travelling overseas. Reciprocity also presumes fleets can cope with increased demand.

The reciprocity issue will be dealt with later but it appears to be one of the major inhibitors to growth.

The "one for one" arrangement presumes to create a level playing field yet it has three major flaws:

(a) it presumes the potential is equal;
(b) it is not based on an understanding of trade or tourism and the subsequent income
     potential; and
(c) it presumes that Australian carriers have the fleet capacity to honour "one for one"
     agreements or opportunities.

If Australia and country X entered into an agreement where Australia had 10 units and agreed to country X having 20 units, the effect would be:

• country X would have double the capacity to bring tourists into Australia
• country X would have double the opportunity to increase its Australian export
  freight capacity when returning to its port of origin.

It is unclear what the disadvantages may be. Reciprocity highlights the fact that ASAs are not based on trade growth goals. The general perception is "we cannot give them what they cannot give us" presumes equal outcome, which is not the case.

As a parallel, it would be unthinkable to have reciprocal shipping agreements between Australia and foreign countries. This could severely restrict exports and hinder Australia's ability to sustain economic growth.

Air service agreements should be developed for the purposes of increasing trade. The purpose is currently geared towards diplomatic trading of commodities such as aircraft landings. Aircraft are the vehicles for tourism and air freight, the same way as cargo ships are vehicles for primary industry exports, and should not be the tradable resource

• **freight**

Air freight has become increasingly significant as new sectors of the Australian economy. Of the 340,000 tonnes of freight moved through Melbourne Airport, 80% goes out on passenger aircraft. There are effectively 2 air freight sectors - dedicated freighters which account for around 20% of International freight, and freight exports which rely on passenger aircraft and benefit from the frequency.

Between 1990 and 1997 the number of dedicated freighter services has increased from 3 to 16 per week.

To place the change into perspective, exports in 97/98 are expected to yield approximately $20 billion from air freight ($11 per kilo). Sea freight is expected to yield $90 billion of export revenue (at 20c per kilo).

Traditional sectors such as mining, beef and sheep rely on sea transport. Generally, air freight services the "just in time" product markets which are the emerging sectors of the Australian economy. Commodities such as fresh food, pharmaceuticals and electronic components are increasing users of airfreight.

These are new industries which require efficient delivery. Increased airfreight capacity
ensures improved delivery opportunity for these industries.

- **The environment of Government regulation and industry participation.**

Australia and many major trading partners have moved towards reduced government
controls in commerce. ASAs are an exception since the environment is almost entirely
controlled by government.

In Australia, there is negligible participation of industry in the process. Privatised
airports have not been included in the negotiation process. However, the airports have
a clear commercial interest in the outcome, especially with pricing restrictions which
direct them to increase volume of traffic as the way to increase revenue from aviation
The government has made efforts to consult the new airport operators since
privatisation but they are still not involved in the negotiation process.

Tourism industry participation will be most effective through an advisory forum which
is strategic and structured and provides the ASA process with reliable advice.

Tourism is a vehicle for significant foreign income earning. Trade and tourism needs
should be paramount and private sector representatives involved in inbound and
outbound should be consulted.

PROTOCOLS

ASAs determine trade and tourism capacity yet they are framed within a diplomatic
process which reflects on their origins but should be reviewed to address their trade
and tourism purpose.

The current procedure to establish agreements, have capacity increased, or have them
reviewed is extremely time consuming and out of step with the current availability of
telecommunications.

The cost of these procedures is probably unjustifiable and the money would be better
spent on missions brokering agreements for expansion with countries where there is
significant tourism and trade opportunity. The ASA should be a technical function of
this. It appears to be a case of "process dominating purpose".

The "eye dropper" approach to increasing capacity is restrictive. Long periods of
planning concluded by visiting delegations which increase capacity by only five to ten
percent represents a lot of effort for a small outcome.

There is also considerable inconsistency in the terms, conditions and general tone of
ASAs. They range from extremely prescriptive to reasonably flexible.

The explanation of these variations is that agreements are reciprocal. Australia should
have a policy that agreements are to be as flexible as possible; and increases can be

negotiated quickly and easily to allow for changing market trends within the period of the ASA. If the other party wish to introduce restrictions, Australia should not be part of the problem simply because the protocol of reciprocity is the accepted custom.

SPECIFIC RESPONSE TO INDUSTRY COMMISSION INTERNATIONAL AIR SERVICES INQUIRY ISSUES:

THE BILATERAL SYSTEM OF AIR SERVICE AGREEMENTS

How do you perceive the market for international air services to and from Australia has changed in recent years?

The number of international arrivals now exceed the number of departing Australians. Tourism is now regarded as the biggest single foreign income earner for the Australian economy.

While outbound has increased and destinations have diversified, Australia's inbound market has changed dramatically with a significantly broad base of European, New Zealand, American and Asian markets underpinning the growth.

How does the current framework of bilateral ASAs affect

- *the ability of airlines to respond to rapid changes in market conditions?*

The current framework was not designed with market conditions or rapid change in mind. In particular, designated ports, the principal of reciprocity and negligible incremental increases all constrain market changes.

The protocols and processes involved in ASAs are not market responsive.

AUSTRALIA'S APPROACH TO NEGOTIATING ENTITLEMENTS

How effective is the current consultative process for obtaining information on Australia's air service needs? How could it be improved?

The process is ineffective due to its lack of structure. Air services create tourism, and freight trade, all resulting in foreign income earnings and trade.

The tourism industry has token representation through the Tourism Advisory Group co-ordinated by the Commonwealth Department of Industry, Science and Tourism. It is self described as informal. If it ceased activity DOTRD would probably not notice. TAG is not strategic.

Significantly, privatised airports have not until very recently been included in government consultation processes. Although airport sales have been on the government agenda for several years, the ASA processes have not factored this change into their processes. Nor has DOTRD moved to recognise new players in the consultative process. Airports and other interested parties should be given the opportunity to input their sector's objectives into the process at an early stage.

How could it be improved?

Identify growth markets to provide strategic targets. Restructure TAG to include inbound and outbound tourism representatives and understand that inbound and outbound are different components of tourism. Trade, Transport and Tourism should be involved in planning ASAs.

Are there matters that have not received sufficient consideration in the process of negotiating Australia's entitlements under ASAs. Please provide examples.

The inbound/outbound variation between markets effects growth. Pre-currency crisis Korea is an example of inbound vastly exceeding outbound. This market suggested considerable foreign currency opportunities for Australia yet the opportunity was not exploited. The reciprocity principle constrained growth, yet market demand was not reciprocal.

Regional development is another issue which appears to be constrained through port designation. It is unclear why airport access has to be specifically nominated, or restricted to a number of airports.

How effective has the government been in ensuring that all relevant issues are considered in developing Australia's negotiating strategy and that the needs of consumers, exporters the tourism industry and the Australia aviation industry are taken into account?

It is unclear how the government has put into place mechanisms for measuring these various needs. If there has been no attempt it is unlikely there has been any achievement.

RECENT DEVELOPMENT IN INTERNATIONAL AIR SERVICES

Under this issue a number of policy changes are noted. Given the changing nature of tourism and trade since 1985, changes to ASA policy should be considered normal rather than exemplary.

What effect have recent aviation reforms in Australia had on the market for international air services to and from Australia?

Privatisation of Qantas has seen an understandable shift in focus towards market opportunity and demand, evidenced by the recent removal of air services to Asian countries effected by the currency crisis.

The alliance between QF and BA, and the partial ownership of QF by BA has seen an entrusting partnership develop. Capacity granted to Qantas can be shifted to routes served by BA through code shared services. The recent Austrian capacity increase is a case in point.

While Lauda utilised increased capacity in the traditional manner by putting on extra Austria/Australia services, Qantas responded by providing Vienna/London transfers

through BA to link up with London/Australia services. The separate effects on Australian inbound and outbound traffic will need to be assessed.

The effect of the 1997 airport sales is yet to be fully realised. However, Melbourne Airport has introduced a policy of landing fee discounts as part of its policy to attract additional services. To date one carrier has been signed up, there are two more being negotiated and a further carrier has indicated its intention to utilise the discount.

AIRLINE ALLIANCES AND CODE SHARING

Where code sharing allows an airline to assess likely market opportunity, or assists sustain a service by having it "co-operated", code sharing plays a positive role.

However, when an airline has been through this process and then meets a number of barriers and hurdles due to capacity constraints and objections, the benefits decrease.

THE NATURE OF AUSTRALIA'S AIR SERVICE AGREEMENTS

On what routes do existing ASAs actually constrain traffic? What measures, if any, could be taken to alleviate these constraints?

China, Hong Kong, Malaysia, Philippines, South Africa, Mauritius, Thailand, Taiwan, Germany, Argentina, Italy, Egypt, France, India, Japan, Vietnam, Chile, Canada.

Constraint can be alleviated by increasing seats available for passenger aircraft, removing city specification, increasing freighter frequency.

The measures to alleviate the constraints are all proposed within the existing framework. While these can be lifted in the short term and within the current model, the long term goal should be a more thorough review of processes to align the system with trade and tourism growth goals.

AIRFREIGHT

ASAs should have three distinct procedures - passenger services, freighter services and charter services - to align agreements with future industry directions.

What aspects of ASAs, if any, limit the ability of airlines to offer regular and reliable freight services?

Increased services means increased freight capacity since 80% of freight is on passenger aircraft. More services mean more export opportunity.

CABOTAGE AND BEYOND RIGHTS

Australia considers itself an "end of route" destination and there are several disadvantages in being the end of the line. Removing cabotage and extending beyond rights, particularly across the Tasman, are two ways of achieving this.

As a tourist destination Australia has several climatic zones and therefore provides variety of environments. If Australia wishes to attract more international air services and tourists t should consider removing cobotage.

Qantas currently enjoys this opportunity, and it is a private airline with significant foreign ownership.

ECONOMIC EFFECTS OF THE CURRENT ARRANGEMENTS

What effects do the current arrangements have on Australia's inbound and outbound tourism.

The effects of designated ports creates hubs, which restricts inbound distribution and outbound access.

Reciprocity presumes all inbound and outbound markets are equal, which they are not. Reciprocity further presumes that Australia has got something to lose by allowing the other party more opportunity to send tourists.

It is unclear if the current arrangement strategically refer to market assessment and development activities of the Australian Tourist Commission, for example.

In short the current arrangements should serve various economic opportunities rather than define the environment in which they occur.

What effect do the current arrangements have on the development of existing and potential aviation markets?

The arrangements need to separate scheduled services and charter services to allow a new market sector to grow.

The process for new services to be introduced is broadly criticised by foreign carriers who find the process complicated, time consuming and presumes the Australian carriers act in Australia's interests.

REGIONS

What are the consequences of Australia city specifications for foreign airlines?

The result is inflexibility to respond to changing market demands during the life of the ASA and the development of hubs which do not encourage the distribution of services or passengers.

It is unclear why Australia even nominates cities in ASAs other than customary practice.

What gains could be expected in different regions or cities if the current arrangements were to change?

Airlines could respond to changing market demands. For example, Cathay brings passengers from Europe and Asia. Their destination needs may be different and within the life of an ASA their mix of customers may change. However, under specified cities they are locked in to a format.

ACCESS TO AIRPORT INFRASTRUCTURE

To what extent is access to Australian airports and airport facilities restricted?

Access is limited to foreign carriers as a result of city specifications.

In terms of access limited by physical and facility capacity, most Australian airports are currently operating below capacity. Melbourne Airport, with 24 operations, is many years away from capacity. Even within specific slot times Melbourne has capacity.

Is the current IASC process the most effective and efficient means of allocating capacity rights to Australian carriers? Could administrative costs be reduced without sacrificing transparency and other objectives of the legislation and Policy Statement?

The process appears to be complicated. It is unclear why the process is not streamlined. Air services should be a means to an end to facilitate trade and tourism. The processes appear to be styled as the purpose.

Proposing the streamlining of the allocation of capacity is consistent with the view that the whole process needs to be made simpler and designed to achieve the purpose of increasing tourism and trade.

Foreign carriers should also be afforded similar ease of access.

IMPROVING AUSTRALIA'S INTERNATIONAL AIR SERVICES ARRANGEMENTS

Options under the bilateral system.

Which of the current restrictions under the bilateral system, if any, are necessary for the effective operation of Australian international air services?

Other than requiring safety and security standards to be met, none of the restrictions are necessary for the effective operation of Australian air services.

What improvements are possible under the existing bilateral system of ASAs?

Establish a clear purpose - to increase inbound tourism and freight and therefore contribute to Australia's foreign income earnings; improve opportunities for imports improve routes and destination options for Australia's departing business travellers and tourists.

Approach foreign carriers as partners rather than foes. Foreign airlines are the vehicles for delivering tourists and exporting freight and should be regarded positively.

Remove city specifications from the agreements to allow for airline flexibility, regional development opportunities and market changes.

Cease the reciprocity principle in recognition that many countries have got more to offer us than we have to offer them.

Remove cabotage restrictions to reduce the negative impact of "end of route".

Reallocate unutilised capacities to ensure the maximum benefits are achieved.

What are the advantages and disadvantages of Australia entering into "open skies" agreements.

The term "open skies" has numerous interpretations. Melbourne Airport recognises that the economy operates within a number of regulatory frameworks. As such, and as previously noted, the Airport supports the process of "re-regulation" to align processes with market needs and opportunities. The first step is to define the purpose - to increase trade and tourism.

"Open skies" is used to describe the Australian, New Zealand and Singapore markets. These markets have flexible arrangements and can accommodate change. There have been some reports of other markets moving towards more flexible air service arrangements (at the time of writing Thailand. Details yet unconfirmed).

Features of a reregulated model would include separate treatment of scheduled, freight and charter services, all with the purpose of increasing trade and tourism. Dealing with the three types of services separately should be underpinned with the purpose of support and development.

A UNILATERAL APPROACH TO LIBERALISATION

There is scope for Australia to lead unilaterally since initiative has to start somewhere. Singapore and New Zealand have become partners and Australia should seek other partners for liberalised relations.

Australia must address it geographic location in relation to its key markets. New Zealand is a natural partner but with a small population. Issues such as beyond rights and cabotage need to be addressed to assist Australia remove some of the perceived and actual impediments to prepare for unilateral and bilateral liberalisation.

What forum should be used to pursue a multilateral agreement on international air services?

A forum which recognises that air services facilitate trade and tourism and should not limit business growth or activity.