

## MINISTER FOR TRANSPORT

### WESTERN AUSTRALIA

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

Dear Professor Snape

#### *International Air Services Inquiry*

Western Australia notes the Industry Commission's Inquiry into International Air Services and welcomes the opportunity to provide input and comment.

Due to this State's geographical isolation from the east coast, proximity to Asia and being in the same time zone as many of our Asian neighbours, Western Australia is in a unique position in regard to international air services when compared to cities in the Eastern States. This State is heavily reliant on international tourism, air freight and business traffic and these are essential for Western Australia's economic wellbeing.

Western Australia is also concerned that the present bilateral process does not take into account the genuine needs and expectations of the State and in some cases is biased against the best interests of the state.

#### *Concerns with the current bilateral process*

- Many of the current bilateral agreements are either point specific (usually one or more of nominated east coast cities) or permit operations into a limited number of cities (usually defined as two or three points in Australia, without nominating the points). These types of agreements are discriminatory and act against the best interests of the smaller States.

To provide a level playing field, and permit the States and privatised airport owners to "market" their capital cities, or use other enticements to convince foreign airlines to fly to their cities, **all bilateral agreements should be worded in a non-discriminatory manner** (such as "to any point in Australia".)

Technical Advisers

- Western Australia has concerns about the current bilateral processes in that the States and Territories have little input into the negotiating process, whilst the two airlines (Ansett and Qantas) who attend the negotiations as "technical advisers" would appear to have much more influence on the outcomes than is generally conceded.

The State is of the opinion that if technical experts are required to assist the negotiating team, **they should be independent experts** and not necessarily airline personnel who may be perceived as having a vested interest in the negotiations.

### Constraint on Trade

- There are concerns that some international bilateral negotiations are linked with other issues such as trade negotiations and the like. This action tends to distort the importance of the aviation bilaterals and by restricting capacity on certain routes due to non-agreement on peripheral issues such as trade, can impact on State tourism, air freight potential and business travel, to the detriment of the State's economy.

The perception is that the current bilateral agreements tend to shelter the two Australian airlines (Ansett and Qantas - both of which have increasing foreign ownership) from competition. This stifles competition from foreign airlines wishing to serve Australian cities.

A case in point is that Malaysia Airlines wishes to operate additional services between Perth and Kuala Lumpur, but have no capacity under the current agreement. Qantas which doesn't operate services between Perth and Kuala Lumpur, is understood to oppose any additional capacity being granted to Malaysia. Thus a growing market into Malaysia for tourists and freight is being frustrated and likewise Malaysians are restricted to current capacity, which has a negative impact on the State's economy.

In effect, the **bilateral process is being used as a constraint on trade and this stance can not be tolerated.**

### Competitive Environment

- It is also essential that there be a competitive environment to drive down fares and provide other benefits for consumers. One way this can be achieved is by air capacity staying ahead of demand, although the present arrangement inhibits this due to the influence Qantas and Ansett are perceived to have on the negotiations.

The two Australian airlines are limited in aircraft capacity and recent reports indicate that they have put additional fleet purchases on hold. It is therefore in

their best interests, but not those of consumers' to endeavour to limit the capacity on a particular route.

### Safety Concerns

- Aviation safety is of prime concern to the State and the travelling public. If the bilateral process can be used to **keep airlines with a poor safety record out of Australian skies**, such moves should be encouraged.

Flight safety is of paramount concern to the Government and consumers and it is essential that only airlines with a proven safety and maintenance record are permitted to operate to and from Australia.

*Options for improving the current system of bilaterals or changing the system.*

### Preferred Option

- Western Australia favours an **"open skies" policy being negotiated on a country by country basis**, on the proviso that the other country also agrees to open skies for Australian carriers. There are minimal or no dis-benefits to the State from such a stance and there are a number of advantages to the State from such a move. An open skies policy will give the States and the privatised airport operators much greater potential to deal direct with the airlines. It is of little use, under the present system, approaching an airline to provide additional services if it does not have any capacity or access entitlements into the State.

Both Commonwealth and State aviation policies are promoting a greater degree of competition, deregulation and less Government controls over the aviation industry. An open skies policy is the next logical step in this direction.

The State considers that an airline will only service a market because it considers there is a demand for its service, or there is potential of growth for increased services. An airline does not service a market simply because a policy or bilateral agreement gives it the right to do so. An open skies policy will permit additional capacity to be put onto a route as demand dictates and will let market forces prevail and determine the frequencies of services that an airline will provide.

### Second Option

- If an "open skies" policy can not be achieved in the short term, the **second best option is to have a substantial liberalisation** of the present bilateral system, with the ultimate aim of an open skies policy. Such liberalisation should at least

permit additional capacity to be placed onto a route as and when required to meet market demand.

An example of this is the Malaysia Airlines situation as outlined in the section "Constraint on Trade", wherein the airline is constrained from operating additional services into Perth as it has the market, but not the capacity entitlements.

This option would only be acceptable if a timeframe was established for an open skies policy to be introduced by a certain date, say the year 2002.

### Transparency

- The **bilateral process should be more transparent and open to scrutiny.** One option that should be considered is a requirement to table all bilateral agreements in the Federal Parliament for 14 days prior to ratification. This would enable the States (and others), through the State's Members of Parliament to raise matters of concern and to highlight inadequacies in the agreements. While the Commonwealth is likely to object to such a proposal on the grounds of confidentiality, ways of overcoming such objections should be explored.

### State Representation

- If the present bilateral arrangements are to continue the State requires a much stronger voice in the process. The State feels that the Federal Government negotiates (to their own agenda) the rights for airlines of foreign countries to operate into the capital (and other) cities of Australian States and Territories, which in turn has a dramatic impact on the tourism, trade and business development of the individual States and Territories, yet they have minimal input into the negotiation process. The State does not consider that the present air services agreement processes serve the State well and in a number of instances are detrimental to the State's best interests.

**The States should be represented in the negotiation process,** in the same way as the tourism industry and (defacto) the airlines.

### Views of Other Interests

- Other interested parties, such as the privatised airports, the air freight industry and the business community, which have a substantial interest in international air services have no avenue of input into the bilateral process. In the case of the latter two industry sectors, they tend to operate in the high yield end of the airline

spectrum and thus have a major influence on whether or not a service will be viable. Their support of a new or increased service can often tip the scales as to whether or not an airline will decide to provide services.

The newly privatised airports, such as Perth, paid many hundreds of millions of dollars for their leases and they need to raise revenue to gain a return on their funds. Under the present arrangement, they have minimal input into the bilateral process and this amounts to a constraint on trade.

While it may be unwieldy to have all such groups directly involved in the negotiation process, **ways need to be found to enable the private airports, the air freight industry and the business sector to have a greater input into the process.**

### Regional Airports

**Smaller regional international airports**, such as Broome, Port Hedland and Learmonth, **should be treated differently** to the capital city airports. These are developing markets which require support from governments to achieve their potential - they cannot flourish in the face of artificial restrictions imposed by a system which is focussed on the needs of the big centres. It is unlikely that a carrier would be willing to serve a small regional airport if it meant that the airline was forced to forfeit some of its capacity into a capital city. This is particularly so given the risks associated with developing new markets. A system of rights which provides scope for entrepreneurial activity in developing new markets is needed.

One solution could be to put such locations in as a second tier of automatically approved airports. If an international airline wished to service such an airport to establish a market or to meet a special need, it should be permitted to do so, without impacting on its approved capacity to the capital cities.

### Cabotage

- Cabotage should be introduced with foreign carriers and negotiated by reciprocal arrangements in other countries. This is seen as an opportunity to increase capacity into Western Australia for domestic passengers

### Freighter Aircraft

- The export of Australian perishable products to overseas markets is economically important for Australia. There must be **flexibility in bilateral arrangements to permit the unrestricted operation of freighter aircraft.**

With Australia endeavouring to boost export earnings and to boost employment and the income of the primary industry sector, the air freight of high value

perishable cargo to overseas markets should be a high priority. Australia's best interests can be served by ensuring that such freight is not inhibited from being carried.

It is known that some airlines derive up to 30% of their revenues from freight, so it is a highly important aspect of airline operations.

While disappointed that the Industry Commission does not propose to hold a public hearing in Perth, the State would welcome the opportunity to expand on the issues raised in this submission, together with other relevant matters, at the public hearings in Sydney, with the preferred date being Friday 13 March 1998.

Eric Charlton, MLC  
MINISTER FOR TRANSPORT

Norman Moore, MLC  
MINISTER FOR TOURISM