

SUMMARY & RECOMMENDATIONS OF THE QUEENSLAND GOVERNMENT SUBMISSION TO THE INDUSTRY COMMISSION'S INTERNATIONAL AIR SERVICES INQUIRY

There has been a continuous growth of international airlines serving Australian airports in recent years. As an indication there are 43 international airlines operating to Sydney at 16 February 1998, 30 to Melbourne, 28 to Brisbane, 16 to Perth, 13 to Cairns, 7 to Darwin and 6 to Adelaide. With the privatisation of all Australian major gateway airports, with the exception of Sydney, by June 1998, there will be more activity by Airport owners, State Governments and other interested organisations to attract more international flights to their respective airports.

The current framework of bilateral Air Service Agreements (ASA) is considered to be too restrictive to a) enable airport owners, State Governments, Tourism Product etc. to promote the development of airline access to specific areas of Australia and b) to enable airlines to react to changes in markets as quickly as they would like. As recently illustrated with the onset of the Asian financial crisis, because of these constraints, it was made more difficult for Australian inbound tourism markets to react quickly to downturns in traditional markets because of lack of direct access to/from emerging tourism markets.

It is suggested that all international air routes into Australia are constrained in some way. These restrictions can take the form of capacity constraints, traffic right restrictions, operational frequency restrictions, limitations on access to some airports, restrictions on airline route entitlements, airport curfews and airport capacity controls.

EXISTING REGULATORY FRAMEWORK

From an operational perspective the current ASA procedure works well but when considered from a commercial perspective it is less than satisfactory.

1. **Open Skies:** The only area in which there is an open sky policy involving Australian is with New Zealand. The success of this policy is such that one new airline has commenced operations between the two countries and is still expanding its route structure. i.e. Freedom Air International.

All other air routes are subject to bilateral negotiation and as it would not be possible to negotiate open skies with all countries on a bilateral basis, there will still be a need for a negotiating policy for such Air Service Agreements.

2. **Designation:** Currently not all Air Service Agreements allow for multiple airline designation.

3. **Route Entitlements:** Are currently considered to be quite restrictive, particularly in the case of a carrier wishing to operate a non-direct route to Australia, e.g. Japan/Noumea/Australia which route could be of particular benefit to the Australian inbound tourism market.

With the current bilateral system there can be several routes negotiated between Australia and a second foreign country, which can be restrictive to some airlines.

In many Air Service Agreements, specific airports in Australia were negotiated. This strategy is obviously flawed with the current privatisation of the majority of the Australian international gateway airports.

4. **Capacity Entitlements:** Capacity is currently negotiated, in many cases, on the basis of current passenger requirements.

Capacity is currently expressed in “units” of capacity, in the majority of Air Service Agreements. A “unit” of capacity equates to a Boeing 747 aircraft.

5. **Airline Alliance and Code Sharing:** Code sharing is now an integral part of the bilateral process as is the formation of airline alliances.

A FUTURE REGULATORY FRAMEWORK

There are several fundamental changes which should be made to the current regulatory process which would materially benefit all areas of the Australian economy.

It is recommended that, as a prerequisite to any changes to the current system, any vestige of protectionism of Australian international airlines should be eliminated. (Both Qantas and Ansett are now 49% foreign owned).

Queensland supports further liberalisation of the current system for negotiating international air service agreements in the following areas:

- **Open Skies:** *It is recommended that a regime of **bilateral** open skies agreements be initiated for both cargo and passenger Air Service Agreements.*

This would enable the signatories to such agreements, to operate services to meet market demands without any restriction on capacity, frequency or cities served. Where it is not possible to negotiate a bilateral open skies agreement, the following criteria should be applied.

- **Designation:** *It is recommended that all International Air Service Agreements must allow for multiple designation for Australian carriers.*

- **Route Entitlements:** *It is recommended that there should not be any requirement for more than one route to be negotiated for each Air Service Agreement, except in the case of an airline operating round world services. In which case one route should apply to the Eastern Hemisphere routing and one to the Western Hemisphere routing.*

It is recommended that all international carriers operating to Australia should be provided with beyond rights, particularly on Trans Tasman services.

In many countries, Australia and New Zealand are considered to be one market and every effort should be made to have their access made as simple and as cheap as possible for the visitor.

It is recommended there should be no restriction for any foreign airline wishing to operate a non-direct flight to an Australian airport.

It is recommended that all artificial barriers which are included in Air Service Agreements to protect "national" carriers be removed.

Then all international carriers operating to two Australian cities should be permitted to carry their own stopover passengers between the Australian cities. This would enable the foreign airlines to price their Australian tours at the same level as the Australian international airlines, which are able to provide this oncarriage in their own services.

It is recommended that specific ports in Australia should not be negotiated under any circumstances.

As all International Australian gateway airports are privatised, they should be provided with the same opportunities available to the historical major gateways of Sydney and Melbourne to attract new carriers to their airports. The same principle of attracting new carriers will apply to State Governments and other interested parties in each State.

- **Capacity Entitlements:** *It is recommended that all capacity should be negotiated well in advance of current demands and take into consideration airline and government passenger and freight forecasts and special events.*

It is recommended that capacity should be expressed in a number of seats and not in units of capacity.

This would be much more practical with so many different types of aircraft types now operating internationally and with the need for airlines to change aircraft types at relatively short notice to meet market requirements.

- **Code share and Alliances:** *It is recommended all code share agreements should include third country code sharing. It is also recommended that all capacity allocated for code sharing is expressed in a number of seats and not as units of capacity.*

It is also considered unacceptable for a code share to be approved which would create a monopoly or duopoly on a route as was the case with the approval of the code share approved in 1997 for Qantas and Japan Air Lines to code share the only flights operating between Tokyo and Cairns. Access to this route is governed by availability of departure slots at Narita airport, Tokyo.

Alliances which include Australian international carriers could very well lead to those carriers becoming feeder airlines into foreign hubs and as such the carriers will become more economic through a reduction in their operational costs. It is accepted throughout the international aviation industry that Alliances will develop. The advantages of these alliances will include a positive generation of revenue through the yield management systems of all participating carriers in each alliance.

- **Cabotage:** *It is recommended that on a bilateral basis cabotage rights between cities in Australia be made available to foreign carriers.*

To encourage the airlines to serve several cities in a large sparsely populated country such as Australia.

It is recommended that all international carriers be provided with beyond rights to a third country.

At the present time, for instance, American carriers do not have beyond rights available from the Queensland cities of Cairns and Brisbane but do have them from Sydney, Melbourne, Perth and Darwin.

- **Freight:** *It is recommended that all Air Service Agreements for scheduled freight services be on a bilateral open skies basis.*

- **Northern Australia:** *It is recommended that a Northern Australia Development Zone be recognised as that part of Australia north of the Tropic of Capricorn and including Alice Springs.*

This area, which includes the international airports of Port Headland, Broome, Darwin, Alice Springs, Cairns and Townsville should be considered a special zone for international airlines either serving one of the ports in that area as a terminal point, or as a transit call enroute to a second port in Australia. It is essential that the capacity utilised for these flights should be quarantined from all other bilateral capacity negotiated between the country of origin and Australia and the foreign airline be granted cabotage rights between the two Australian cities. This would encourage operations to these Northern Australian ports which do not have a population base to support regular outbound flights by an international airline.

An example is the requirement for Malaysia Airlines, Singapore Airlines and Garuda Indonesia to serve Darwin on their Cairns terminators, without traffic rights between Darwin and Cairns, which is a disincentive for them to operate the route. However, the Qantas flights between Cairns and Singapore all operate via Darwin with full traffic rights! Additionally, Malaysia Airlines is restricted to two weekly flights on that route.

There is a tourism potential for Northern Australian as is evidenced by the ABS statistics for visitor arrivals but it is not being exploited.

- **Charters:** *It is recommended that the problem of Border Control availability at secondary airports must be addressed as a matter of urgency.*

It is not reasonable to expect the passenger to pay the additional costs of Border Control officers attending the arrival/departure of an international aircraft at a secondary airport without permanent border control facilities. Two such airports are Coolangatta and Maroochydore.

It is recommended that the approval process for charters be accelerated, as this has been a source of difficulty for some charter operators.

Charter services have an important role to play in the development of new routes and in developing secondary airports and regional destinations.

The International Air Services Commission

It is recommended that the current procedures for the allocation of Australian capacity be maintained.

This has generally been beneficial to the established Australian international carriers and to the tourism industry in Australia. It has also been instrumental in the protection of the Australian traveller through its requirements which must be met by all start up international carriers.

Australian Competition & Consumer Commission

It is recommended that the competitive aspects of international alliances should remain the responsibility of the ACCC rather than the IASC.

Bilateral Negotiation Process

It is recommended that the current forum for the negotiation of Air Service Agreements be maintained with the Department of Transport and Regional Development as the lead agency.

The systems that Department have in place for collating input from various interested parties are satisfactory, however it would be improved if input was directly from the State Governments to the Department of Transport and Regional Development rather than through the Office of National Tourism.

It is not felt that any benefit would be derived from moving this negotiation process to another Federal Department. It is also considered that ICAO, IATA and GATT are not the forums for the negotiation of Air Service Agreements, at this time.