

**INTERNATIONAL AIR SERVICES
COMMISSION**

**SUBMISSION IN RESPONSE
TO THE DRAFT REPORT OF THE
PRODUCTIVITY COMMISSION
INTO INTERNATIONAL AIR SERVICES**

JULY 1998

Introduction

The International Air Services Commission (IASC) has considered the draft report of the Productivity Commission on International Air Services released on 18 June 1998. The area of the report of particular relevance to the IASC is Chapter 6 which relates to the allocation of capacity.

Many of the issues raised in Chapter 6 are a matter of policy for the Government. However, there are some matters of factual accuracy and possible misunderstanding of the Commission's procedures to which the IASC draws the Productivity Commission's attention.

Viability Testing

On page 133 of the report it is stated that all airlines, including Qantas and Ansett International, must satisfy the general criteria in all applications for capacity and that this is an unnecessary regulatory impediment to efficiency in the Australian airline industry.

It is also stated on this page that viability testing and "anticipation approvals" impose significant costs in terms of administration by the IASC and compliance by the airlines. An Australian World Airways estimate of \$350,000 to \$400,000 is quoted in support of this statement.

The implication which could be drawn from the above is that all airlines, including Qantas and Ansett International, are required to comply with costly viability testing every time an application is lodged.

Such an interpretation would be misleading as:

- (i) the IASC accepts, other than in exceptional circumstances, that established airlines are able to meet the viability test and requires no additional information from them on this issue
- (ii) where the IASC does undertake viability testing, for example in the case of new airlines, it is unlikely to result in significant additional costs for those airlines, given that the IASC makes its assessment on the basis of business plans which would ordinarily be required to raise necessary finance

General criteria

The general criteria that all airlines must satisfy in relation to an application for capacity arise from Paragraph 4 of the Minister's Policy Statement issued pursuant to Section 11 of the International Air Services Commission Act 1992.

Paragraph 4 prevents the IASC from allocating capacity to Australian carriers unless those carriers are reasonably capable of obtaining the necessary approvals to operate on the route and of implementing their proposals.

For established carriers such as Qantas and Ansett International, except in exceptional circumstances the IASC accepts that the carriers have such a capability. An extract from IASC Determination IASC/DET/9801 in relation to a Qantas application for capacity to India is attached which demonstrates this point.

The only circumstances under which the IASC might seek a business plan from an established airline would be where an application is contested and the business plans from the applicants could be used to assist in determining the relative public benefits of the applications

The IASC is mindful of the need to ensure that any burdens and costs on airlines arising from its administration of the Act are minimised.

Viability testing for new airlines

The IASC undertakes viability testing of new airlines to satisfy itself that they meet the Paragraph 4 requirement of being reasonably capable of implementing their proposals.

The critical part of the viability testing is that the new carrier is asked to provide a detailed business plan covering projected income and expenditure for the first five years of operations, including details of funding sources (debt vs equity) and costs, and assumptions on load factors and fares.

While the IASC acknowledges that the preparation of such a business plan could involve extensive costs, it does not consider that it is a burdensome requirement or that the costs should be attributed to the IASC. The preparation of such a business plan would usually be an integral part of the prudent planning for any new venture and is invariably sought by prospective financiers.

Roles of the ACCC and IASC

The draft report states on page 151 that:

The role of the ACCC should be to consider anti-competitive behaviour by firms, including international airlines, while the role of the IASC should be to adjudicate on contested applications for capacity. The MOU between the IASC and the ACCC should ensure that appropriate consideration of each organisation's views is taken into account when decisions are made.

The IASC already has an MOU with the ACCC that provides for cooperative arrangements between the two organisations and agrees on their respective roles. Paragraph 9 of the MOU already requires the IASC to take account of the views and relevant decisions of the ACCC.

These roles are elaborated upon in the IASC Decision IASC/DEC/9801 approving a code share between Qantas and JAL on the Osaka route. A copy of this decision accompanied the IASC's original submission to the Productivity Commission.

The Productivity Commission may wish to clarify how the MOU and the current roles of the IASC and ACCC would need to be changed to give effect to its views.

Appendix 1: Extract from Determination 9801

DETERMINATION

AN ALLOCATION OF SHELF CAPACITY ON THE INDIA ROUTE TO QANTAS AIRWAYS LIMITED (ACN 009 661 901)

**Determination Number:
IASC/DET/9801**

Date: 30 January 1998

6. Commission's assessment of the applicant's claims

6.1 Under the Policy Statement, the relevant criteria to be applied in assessing benefit to the public, given that there is only one applicant and no other submissions, is whether Qantas is reasonably capable of obtaining the necessary approvals and whether it is reasonably capable of implementing its proposals.

6.2 Qantas is an established international carrier and already operates four B767 services per week to India. The Commission considers that Qantas has the technical and financial resources to implement its proposal.

6.3 The Commission concludes that Qantas is reasonably capable of obtaining the necessary approvals to implement its proposal. Accordingly, the Commission concludes that the allocation of 691 seats per week of capacity on the Australia-India route to Qantas would be of benefit to the public.