

**Public Register**

**Australia World Airways**

**Submission  
to the  
Productivity Commission  
in response to  
Draft Report June 1998**

**INTERNATIONAL AIR SERVICES SECTOR**

**Presiding Commissioner  
Professor Richard Snape**

**Commissioner  
Helen Owens**

**Melbourne Australia  
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# **Australia-World Airways**

## **Response to Productivity Commission Draft Report**

**June 1998**

### **International Air Services**

Australia World Airways (AW) is making this submission in response to the Productivity Commission (PC) Draft Report (the report) June 1998 into International Air Services in Australia.

AW has been scheduled to attend a Public Hearing held in Melbourne on Wednesday July 29th, 1998 at 2.30pm. Bryan Palmer and Simon Hamilton Warrender will be representing Australia World Airways at the Public Hearing on this date.

AW has submitted a response to the PC inquiry into International Air Services dated March 1998 and has previously attended a Public Hearing in Melbourne on March 4th, 1998.

#### **1. General Comment**

AW welcomes the opportunity to respond to the comprehensive draft report and recommendations dated June 1998 by the PC.

Having recently been conditionally granted scheduled bilateral capacity on the Australia/Sri Lanka/Greece/Netherlands routes by the International Air Services Commission (IASC), AW considers that the policy and process reforms of the international air services sector outlined in the report impact significantly on any start-up international airline. AW's comments are directed accordingly.

#### **2. AW references in draft report**

AW refers to comments listed in the report made by the airline at the last Public Hearing attended in Melbourne on March 4th, 1998. The remarks are covered in Section 6 of the draft report.

### **a) Section 6 Page 133 - Capacity Allocation and the IASC**

The costs of meeting the IASC requirements (range \$350,000 to \$400,000) relate to the following expenditure items:

- Head office rentals
- Office admin overheads
- Domestic / international travel
- Casual wages
- Consultants
- Funding costs

This expenditure has been incurred from the inception of AW's submission for capacity to the IASC first made in 1993 and covers the costs of establishing and maintaining a head office administrative facility in Melbourne. These costs do not include consultation fees for aviation regulatory and operational specialists and financial experts retained by the airline to construct the business plan/strategy for submission to the IASC. AW was required, as a start-up, to demonstrate its ability to secure an Air Operators Certificate (AOC) through CASA and other regulatory requirements.

To achieve its objectives and meet government requirements, AW has required a paid up capital close to \$1M.

### **b) Section 6 Page 131- Capacity Allocation and the IASC**

A figure of \$400,000 was noted in the report as the cost associated with satisfying CASA of AW's ability to meet its AOC licensing criteria in the pre-application period. AW wishes to clarify that this expense constitutes the total estimated costs of all the necessary procedures associated with obtaining an AOC. There is however a significant additional cost for a start-up airline in pre application expenditure.

## **3. PC Draft Report - Recommendations**

In responding to the PC's draft report, AW has made comment on each of the draft recommendations numbered respectively.

### **Australia's aviation policy and process**

#### **4.1**

AW has progressed through the capacity application and allocation procedure coordinated by the IASC. During this process it was noted that the prevailing Federal Ministers Policy statement impacts directly on the process of interpreting and implementing the *IASC Act 1992* in relation to broad policy and process. The policy affects the broad direction taken by the IASC in

determining such aspects as code sharing application under the *IASC Act 1992* and therefore should be made known to applicants and incumbent airlines.

The importance of Federal aviation policy in relation to IASC process dictates that at all times this policy should remain visible to the public and market players. The growing liberalization of the Australian international air services requires that ministerial aviation policy be published and updated regularly.

#### **4.2**

AW agrees with these comments as they are expressed.

The IASC plays a pivotal role in the coordination and allocation of capacity so the same requirement should apply to the IASC.

### **A regional reform package**

#### **5.1**

AW agrees with the comments made in this section provided they are reciprocated by countries whose designated carriers are taking up these rights in Australia. Where code sharing takes up the remaining rights on an international route, such determinations should be controlled by the IASC as an independent regulator.

The allocation of code sharing rights should be closely guarded and not practiced to utilize unallocated capacity merely to service government policy or restrict access to a route. It is evident that the Federal Minister's policy statement is central in determining the public benefit when code share capacity is under determination.

Unrestricted rights for foreign airlines to code-share with Australian domestic airlines to all points in Australia would provide a distinct benefit to that airline and the consumer. In addition foreign airlines with shareholdings in domestic carriers would be able to access local markets for on-carriage traffic only allowing for seamless travel on international and domestic services.

Unrestricted rights for foreign airlines to uplift domestic freight would damage viability of domestic airlines particularly as they would have no reciprocal trade-off.

## **International Air Services Commission**

### **6.1**

AW agrees with the PC that contested capacity allocations should be allocated by the IASC and have the public benefit criteria applied to this process and in the process avoiding the development of monopolies.

### **6.2**

AW agrees that the IASC Act 1992 should be amended. The statement however could read:

*.....enhance the welfare of Australia and Australian consumers through the promotion.....*

### **6.3**

AW support the position of the IASC as an independent regulatory authority in the international air services sectors however agrees with the PC in the matter of commercial viability which should remain the prerogative of the applicant airlines Board of Directors.

It is the responsibility of a start-up airline to satisfy the funding and regulatory criteria as part of the IASC capacity application process.

### **6.4**

The PC proposal in respect to uncontested or unconstrained capacity is supported.

### **6.5**

AW agrees with this recommendation, bearing in mind it has been stated that the IASC has a significant role to play in the determination of capacity allocations in circumstances other than those outline in recommendation 6.4.

### **6.6**

AW supports the draft recommendation of the PC.

## **4. Further liberalization - General Comment**

AW supports the recommendation by the PC in relation to encouraging further liberalisation of Air Service Agreements (ASA) to achieve greater flexibility.

It is important to realize the danger that the uncontrolled growth of commercial alliances could well result in the reduction of competition through the formation of cartels and inhibit the establishment and growth of start-up airlines.

It is essential that all parties involved in the liberalization of ASA agreements are in agreement with all elements of any proposal. In addition the formation of an open skies club of nations has inherent hazards for smaller independent carriers to be outvoted and produce a reduction in competition.

Any change to the current structure should be carefully considered in line with the above comments as the end result could produce the reverse effect to that which was originally intended in the liberalization process.

AW would like to witness a global industry environment whereby the mega alliances compete with each other with regulations in place to ensure sufficient access for new entrant niche airlines.

## **5. Access to airport**

Consideration must be given to the availability of airport terminal space for start-up airlines.

## **6. Foreign Investment**

AW believes that the current restrictions in respect of foreign investment in airlines should be relaxed to enable capital to be acquired in circumstances where it is not readily available in Australia. This has particular significance to funding start-up airlines in Australia