

Minister for Industry, Science and Technology

Professor R Snape
International Air Services Inquiry
Productivity Commission
35 Collins St.
MELBOURNE VIC 3000

Dear Professor Snape

International Air Services Inquiry

I write to provide the State Government of Victoria's comments on the Draft Report on International Air Services.

Victoria welcomes and endorses the general thrust of the Draft Report which aims to deliver a more liberalised and competitive aviation environment. In examining the Draft Report, the Government notes that many of the issues raised in its submission have been considered and addressed by the Commission. There are however, several matters that the Government wishes to comment on.

Australia's Aviation Policy and Processes (*Recommendation 4*)

The Government welcomes the development of a direct, accountable and inclusive consultative process to determine Australia's negotiating position ahead of Air Services Agreement (ASA) talks. This process should be managed by the Department of Transport and Regional Development, underpinned by clear aviation policy guidelines and public access to ASAs.

Regional Reform Package (*Recommendation 5*)

The objective of encouraging access to secondary and regional gateways is welcomed, however we note that there are some practical limitations inherent in the *Regional Reform Package* draft recommendations.

The proposal for Melbourne to be a 'primary' gateway (with implied access restrictions) in ASAs is not supported. Under this recommendation, Victoria is the only state or territory without a 'gateway' automatically included in ASAs, noting that in practice Sydney receives automatic inclusion, with few exceptions.

Melbourne's '*end of line*' status and restrictions on trans-Tasman access are a disincentive to north Asian carriers entering Melbourne. This situation is further

exacerbated by code share and other commercial agreements between foreign and Australian carriers (all of which base their international operations out of Sydney or Brisbane), and as such Melbourne is more appropriately designated as a secondary gateway. Clearly, the restrictions implied in the Draft Report are counter productive to facilitating air services to Victoria and South-Eastern Australia generally.

Additionally, Victoria questions the proposal for foreign carriers to have unrestricted code share rights on Australian airlines, as this may result in further consolidation of international terminating services in Sydney and in the case of North Asian services, Sydney and Brisbane.

Other measures in the *Regional Reform Package* including unrestricted own-stop-over rights and freight cabotage are supported as these enhance the viability of existing services as well as spreading the benefits to regional gateways.

Further Liberalisation Measures (*Recommendation 8*)

The Victorian Government welcomes the progression to bilateral 'open skies' regimes where the sequencing and reciprocity of rights with respect to other states, are in place. The various component 'rights' cited in the Draft Report would therefore be negotiated as part of this process.

Charter Services

The Government requests that the Commission give further consideration to the development of charter services, particularly from the viewpoint of creating an environment to develop Australian-based charter services into the Asia-Pacific region. This matter was raised in detail in the Victorian Government's submission to the Inquiry.

Commercial Alliances

The Government notes that while the Commission has considered aspects of airline-to-airline commercial alliances, it has not considered the impact on air services of the relationship between the sales and distribution systems and carriers.

Concluding Comments

A more competitive aviation environment is required for Australia to maximise its business, trade and tourism opportunities and, in this regard, the Commission's Draft Report is very helpful.

Finally, I would like to take this opportunity to congratulate the Commission on its handling of a very complex subject.

Yours sincerely,

Hon. Mark Birrell,
Minister for Industry Science and Technology