

Commonwealth bilateral air service agreements

Opening statement to Senate Select Committee on *Commonwealth Bilateral Air Service Agreements*, 26 September 2023

Dr Alex Robson, Deputy Chair, Productivity Commission

Thank you for the invitation to appear before this Committee and for the opportunity to make an opening statement.

The Commission's previous work has shown that Australia's international aviation policy has generally served us well. But the current state of the aviation market and recent events highlight that there is scope for improvement.

My main messages today are:

1. There would be benefits from further liberalising air services.
2. For quite some time there has been a need for more transparent cost-benefit analysis in decision making in this area.

Liberalisation of air services

The first point I would like to make today is that there is scope to further liberalise air services in Australia.

Many of the air services agreements that the Australian Government negotiates restricts the access of international airlines to Australia's major airports.

Restrictions on access to aviation markets can impede competition between airlines, which matters because it can harm the community in many ways.

Less competition can mean that airlines offer fewer or lower quality services and charge higher prices.

As a result, Australians may pay higher prices for worse service. Inbound tourism may also suffer, which harms Australian tourism operators and the broader economy.

International aviation capacity has grown significantly over the past few decades with nearly 54 million seats in 2018-19, up from nearly 15 million seats in 1991-92.

But some routes have faced a lack of capacity over the years.

When the Commission last looked at air services arrangements in 2015, the Fiji, Hong Kong, Malaysia and Qatar markets were constrained. Since then, capacity for airlines from Qatar has doubled from 14 to 28 services per week but they have been fully exhausted. And the Transport Minister has recently decided not to grant Qatar's request to increase capacity.

Qatar has also exhausted their capacity entitlements under the 'Enhanced Regional Package', which allows access to major airports as long as they operate through another Australian airport in the same trip.

Our view is that foreign airlines should be allowed to access Australia's major airports on an unlimited basis.

We previously recommended a staged approach to liberalisation, starting with unrestricted access to Brisbane, Melbourne and Perth airports, followed by Sydney Airport - unless it can be shown that the costs would outweigh the benefits to the community.

Of course, there is no guarantee that more services will be added if unrestricted access is granted. But it is reasonable to expect that the most immediate benefits could be felt on routes that are currently constrained.

Transparent cost-benefit analysis

There would also be costs to further liberalisation. How could we determine if the costs to the community of further liberalisation outweigh the benefits?

Oddly enough, only a cost-benefit analysis can tell us the answer.

This leads me to my second point: transparent cost-benefit analysis.

I want to emphasise that our message today on transparent cost-benefit analysis is not directed at any particular decision of government.

The need for transparent cost-benefit analysis in this area is not new. It has been needed for many years.

Successive Australian Governments have stated a policy objective of advancing Australia's national interest when negotiating air services agreements.

This is an appropriate objective - the ultimate policy goal should be to enhance the welfare of the Australian community as a whole, rather than to protect or promote any particular group, industry or commercial interests.

The stakes are high. Governments need to balance the potentially competing interests of the Australian aviation industry with those of the broader community, such as tourism operators, air freight users, travellers and the broader economy.

Unfortunately, there has been a lack of transparency for quite some time regarding how governments make these decisions and how trade-offs between these various competing interests are made.

As a result, the fact is that for many years it has been difficult to tell whether these decisions have actually been in the interests of the Australian community as a whole. The public has been left in the dark about the degree to which various interests have been taken into account, what tradeoffs were made, and why.

That is why the Commission has, for many years now, recommended that whenever an international air service arrangement is being negotiated, the Australian Government should assess all the relevant costs and benefits of more open air services markets. And importantly, this assessment should be released publicly.

A cost-benefit analysis might not be everything. But it is an important and powerful tool to support policymaking and decision-making, particularly when such analysis reveals possible unintended consequences and undertakes sensitivity analysis to assess the robustness of decisions.

Cost benefit analysis would improve transparency and boost confidence that decisions are being made in the interests of the broader community. And if in the highly unlikely case - heaven forbid - that decisions are made where costs exceed benefits, the community would know that this is the case and would know how

much the decision's net costs are likely to be. Decision makers would then be fully accountable for their decisions in this area and could explain why they are making policy choices that are likely to impose net costs on the community.

To repeat: these points are not directed at any particular decision of government.

I would be happy to take the committee's questions.