# AUSTRALIA'S INTERNATIONAL TOURISM INDUSTRY

# PRODUCTIVITY COMMISSION RESEARCH PROJECT

**SUBMISSION BY VIRGIN AUSTRALIA**

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The Virgin Australia Group of Airlines (Virgin Australia) welcomes the opportunity to provide comments to inform the development of the Productivity Commission's research paper into Australia's international tourism industry. The tourism industry plays an important role in Australia's economy, in terms of its contribution to national income, exports and employment.

A strong and sustainable network of international and domestic air services is vital to the long-term competitiveness of Australia's international tourism industry. From an airline perspective, the major factors influencing the sustainability of air services, regardless of prevailing economic conditions, include:

- Access to efficiently-operated and competitively-priced infrastructure;
- Cost of key inputs and associated compliance or regulatory burdens; and
- Ability to increase revenues through an expanded network footprint.

Government initiatives which have a positive impact on these factors will facilitate both the sustainable growth of air services and the development of Australia's international tourism industry. In this regard, Virgin Australia welcomes the Commonwealth Government's leadership in relation to decisions including the abolition of the carbon tax and the site for a second airport in the Sydney basin. In addition, the Government's red tape reduction programme and aviation safety regulation review will deliver important outcomes for the aviation sector in Australia. Closer examination of a number of other areas in the future, such as jet fuel supply and aviation infrastructure charges, will be necessary if the sustainability of air services to, from and within Australia is to be safeguarded over the longer term.

Virgin Australia considers that government will continue to play a crucial role in driving growth in international visitation, by supporting the promotion of Australia as a destination in overseas markets and through policy settings and regulation which are effective in lifting the productivity and competitiveness of our international aviation industry. Further detail on our views concerning these matters is outlined below.

**Virgin Australia's international operations**

Virgin Australia operates an integrated network of domestic and international services. We commenced international operations in 2004, and now serve 16 destinations in 12 countries with over 200 international return flights per week. Through our strategic alliances with leading international airlines Air New Zealand, Delta Airlines, Etihad Airways and Singapore Airlines, we offer access to more than 450 destinations across the world.

Our share of international passengers has grown from 4.9% in 2008-09 to 7.7% in 2013-14. We have recently increased our services on the Brisbane-Los Angeles route from four times weekly to a daily operation, and continue to assess opportunities to sustainably expand our international network in the future, increasing our contribution to Australia's international tourism industry.

**Trends in Australia's international tourism industry**

One of the most prevalent trends in international tourism globally over the past decade has been the increased tendency by airlines to pursue expansion of their international networks via code share services. Code share services allow airlines to establish a presence in new markets that it would not be commercially viable to serve with their own aircraft at that time, avoiding significant capital investment and operational expenditure associated with aircraft operations. For airlines based in countries that are relatively geographically isolated from the rest of the world, such as Australia, code share services are a highly cost-efficient mechanism for providing passengers with access to a global network. An airline's ability to offer code share services, however, depends on the availability of the rights under the relevant bilateral air services arrangement/s. Given the importance of code share services to Australia's international airlines, it is imperative that requisite rights are secured under Australia's air services arrangements during the course of bilateral air services negotiations with foreign countries. This allows Australian airlines to access new markets and sources of inbound international tourists and provides a direct incentive for carriers to actively market these services.

Code share services offered by foreign airlines on domestic flights operated by Australian carriers also deliver important benefits for Australia's international tourism industry, by providing visitors with convenient connections to destinations across the country. These code share services allow domestic flights to be offered for sale through global distribution channels, encouraging domestic dispersal and strengthening the performance of local carriers, which are integral to the continued development of Australia's tourism industry.

As a deeper form of cooperation, many international airlines have also sought to form immunised alliances with each other to realise greater commercial and operational efficiencies through a range of initiatives including joint pricing, sales and marketing, pooling of revenues, and reciprocal access to frequent flyer programs and airport lounges. In this regard, Virgin Australia's four strategic alliances have given us significant exposure in overseas markets served by our partners that we would not otherwise have had, revealing new sources of revenue and opportunities to attract more international tourists to Australia. For example, under Virgin Australia's alliance with Delta Air Lines, schedules for services between Australia and the United States have been optimised to accommodate enhanced connections in the domestic markets of both countries, improving convenience for travellers. The alliance has enabled us to offer more competitive airfares on the route, supported by joint sales and marketing activities, including those undertaken in conjunction with Tourism Australia. These initiatives have made a strong contribution to the continued growth in both arrivals and visitor expenditures from the United States, as one of Australia's most important source markets.

The rising costs of inputs faced by international airlines serving Australia is a notable and concerning trend that, if left unaddressed, has the potential to stifle the development of Australia's international tourism industry. The continued escalation of costs, such as airport aeronautical fees and air navigation charges, is being disproportionately borne by airlines, and is placing significant pressure on airfare affordability and on the sustainability of air services more broadly. Policy settings and regulatory regimes which are effective in balancing the interests of key stakeholders in the aviation sector will be necessary to safeguard the competitiveness of international tourism in Australia over the longer term.

**The role of government**

It is appropriate that government – both Commonwealth and state/territory – continues to play a direct role in supporting the tourism industry, given its significant contribution to the Australian economy. The foundation for this support is the *Tourism 2020* strategy, which establishes the key objectives and areas of focus to unite the industry to lift its global competitiveness and realise its future potential, in partnership with government. It is important that governments continue to pursue initiatives which drive the achievement of strategy's objectives, and monitor industry's progress in this regard. Regular direct engagement between government and industry will be necessary to ensure a strong focus on achieving the aims of *Tourism 2020* is maintained, and will allow elements of the strategy to be adjusted to reflect new trends and emerging practices.

One of the most significant challenges facing Australia's tourism industry is the strong competition from other destinations. It is critical that government continues to promote Australia as a destination in overseas markets, through both economic diplomacy endeavours and Tourism Australia's marketing activities.

Virgin Australia has a three-year partnership with Tourism Australia, with total marketing funding recently boosted to $20m, making Virgin Australia's the national tourism body's key partner. In 2014-15, this partnership will include a focus on driving increased international visitation from both the United States and New Zealand, two of Australia's most significant tourism source markets. These countries are also Australia's most valuable in terms of business events expenditure. The business events sector is becoming increasingly competitive, as other countries lift their efforts to attract a larger share of this high-yielding market segment. This has seen business events expenditure from both the United States and New Zealand fall during 2013-14. Under a partnership approach with Virgin Australia and other industry stakeholders, Tourism Australia continues to play a significant role in attracting more visitors from overseas, benefiting the Australian tourism industry as a whole.

The Productivity Commission's 2005 Research Paper into Assistance to Tourism highlighted that "…because of fragmentation in the private sector, individual tourism businesses have insufficient incentive to adequately promote particular destinations, as other tourism business located in the same routes and destinations will be able to 'free-ride' on their promotional efforts"[1]. Accordingly, government will continue to have a key role in helping the small operators in the tourism industry to reach overseas markets, by promoting Australia, and its unique attractions and experiences, to the world.

Since 1 July 2014, Tourism Australia's marketing activities have been exclusively focussed on international markets. The agency's already considerable reach within international markets has been further strengthened through its oversight by the Minister for Trade and Investment. While the domestic tourism market presently generates almost three-quarters of the industry's total expenditure, it is relatively mature compared to the growing international market, particularly in light of the rapid expansion of the middle class in many of Australia's Asian neighbours. The majority of domestic tourism operators are small businesses, whose capacity for undertaking marketing activities in multiple overseas markets is limited, notwithstanding developments in web-based technology. In general, these operators' efforts are more likely to be directed towards the larger and more easily accessible local market, in some cases in alignment with the promotional activities undertaken by State Tourism Organisations. Tourism Australia's focus on overseas marketing will see enhanced benefits from higher-yielding visitors flow to these businesses and the tourism industry more broadly, and in Virgin Australia's view, represents a more efficient allocation of resources.

**The effect of aviation policy and regulation**

Australian aviation policy has remained relatively stable over the last decade, reflecting the bipartisan approach adopted by successive Commonwealth governments. This has provided industry with a measure of certainty to guide commercial planning and investment decisions, and it is widely acknowledged that these policy settings have generated significant benefits for Australian consumers, tourism and trade. Virgin Australia is of the view that the Coalition's Policy for Aviation articulates a contemporary and forward-looking position on key issues facing Australia's aviation sector, which is consistent with and supports its Policy for Tourism.

[1] *Assistance to Tourism: Exploratory Estimates*, Productivity Commission Research Paper, April 2005 at 7.10.

Aviation is one of the most heavily regulated industries in the world. While much of this regulation is necessary to safeguard the integrity of air transport operations, such as in the areas of safety and security, there is significant scope to reduce, streamline and enhance the regulatory and compliance requirements for the industry in a number of areas. Unnecessary regulatory burdens are compounding the financial pressures faced by airlines, with the result that operators are finding it increasingly difficult to keep revenues ahead of costs. With the global industry's average net margin at just 2.4%, or less than $6 per passenger,[2] the financial performance of airlines does not reflect the social or economic value that air services deliver to consumers, communities, exporters and businesses. In this regard, Virgin Australia welcomes the Commonwealth Government's efforts to reduce regulation across the economy, including within the aviation sector, under its red tape reduction programme. Earlier this year, Virgin Australia lodged a submission to this review, highlighting opportunities to improve a number of aspects of regulation in order to deliver increased efficiencies and reduced costs for the aviation sector, with consequential benefits for the tourism industry.

Comments are provided below on those aspects of aviation policy and regulation which Virgin Australia considers directly impact the competitiveness, productivity and efficiency of air services to, from and within Australia.

<u>Australia's bilateral air services agreements</u>

Virgin Australia supports the Commonwealth Government's policy objective of promoting aviation liberalisation, and the role of this policy in facilitating growth in the tourism industry and Australia's economic development more broadly. In particular, we recognise the importance of ensuring that capacity available under Australia's air services arrangements is sufficient to cater for future passenger and freight flows. We would, however, highlight that the outcomes reached in bilateral negotiations with countries in settling new or expanded air services entitlements, must balance the interests of all stakeholders, including those of Australian airlines. It is important to note in this regard that requests for capacity by airlines are not confused with actual economic demand for air services.

As noted above, the competitiveness of Australia's tourism sector depends on the existence of strong local operators, particularly for transporting international visitors to regional areas, where 45 cents of every tourism dollar is spent[3]. The sustainability of air services provided by Australian airlines depends in part on the ability to access new sources of revenue through an increased network footprint. Consistent with our comments above in relation to current tourism trends, Australian airlines are increasingly choosing to pursue cost-effective network expansion opportunities by offering code share services on flights operated by other airlines, in preference to own-aircraft operations. It is therefore imperative that requisite code share rights are secured for Australian airlines as part of any bilateral air services negotiations. With many countries, code share rights are of much greater value to Australian carriers than an expanded capacity entitlement for own-operated services.

In some cases, foreign carriers are seeking increased access to the Australian market for own-aircraft operations, while at the same time being unwilling to concede rights which would enable Australian airlines to offer code share services to their country. Without these rights, the competitiveness of Australian carriers will be eroded over time – not only in the international context, but also domestically, as the viability of international and domestic networks is inextricably linked. Weak or uncompetitive Australian airlines will be far less able to play a meaningful role in supporting the development of the tourism industry.

[2] Speech by International Air Transportation Association Director General Tony Tyler, Doha, 2 June 2014.
[3] *Tourism 2020, Tourism Australia's journey 2010 to 2013*, October 2013 <http://www.tourism.australia.com/documents/Statistics/TACP8132_2020_Update_2013-SP.pdf>

From time to time, some segments of the tourism sector have called on the Australian Government to conclude unilateral ‘open skies’ air services arrangements, providing unlimited rights for foreign airlines to serve Australia. This view is based on the expectation that such arrangements will result in more flights to Australia. This is a short-sighted perspective which fails to recognise the substantial contribution that Australian carriers make to the nation’s tourism industry. On this point, in its 1998 inquiry into international air services, the Productivity Commission concluded that, “…as long as the bilateral system is accepted and entrenched in the rest of the world, Australian airlines are likely to be severely disadvantaged by a policy of unilateral ‘open skies’”[4]. While there have been some developments towards liberalisation since this time, the bilateral system remains the primary mechanism for trade in international aviation rights. Furthermore, it is worth noting that there is capacity currently available under almost all of Australia’s air services agreements to accommodate the operation of additional flights by both Australian airlines and airlines of foreign countries.

Drawing upon Virgin Australia’s experience as a member of the Australian Government delegation at many bilateral air services negotiations, it is our view that, in general, the Department of Infrastructure and Regional Development (the Department) effectively balances the interests of all stakeholders and extracts the maximum value from the negotiating leverage it holds. In many cases, this leverage is limited, given Australia’s geographic position as a non-hub, end-of-the-line destination with a relatively small population. This is a challenging task, which in our opinion has been managed well by the Department to date. Based on past performance and the significant complexities and unique features inherent in the bilateral air services framework, Virgin Australia supports responsibility for air services negotiations remaining with the Department. However, given the trend towards code sharing by airlines noted above, there is increasing scope for Australia’s diplomatic footprint to be leveraged in engaging with foreign countries to pursue the establishment of air services arrangements to support the expansion of Australian carriers’ networks.

Cabotage

Australia’s aviation regulatory regime is one of the most liberal globally, in that it provides foreign airlines with the ability to access commercial opportunities in the domestic market. This includes “investment cabotage”, which enables foreign airlines or entities to hold 100% of the equity in an Australian domestic airline, subject to national interest tests. Both Virgin Blue and Tiger Airways were established under this policy, as airlines wholly owned by foreign interests. These operators brought increased competition and innovation to the domestic market, providing consumers with more services, greater choice and lower airfares.

Australia’s aviation policy does not, however, permit foreign airlines to serve the domestic market by means of consecutive cabotage. If these rights were granted, foreign carriers would likely seek to operate on key domestic routes between major gateways, alongside Australian airlines, earning marginal revenue while incurring marginal cost from an aircraft that would otherwise have remained idle in the intervening time period between international services. Domestic carriers would be severely impacted as a result, with foreign carriers potentially injecting a significant volume of additional capacity onto these routes at airfares which may be lower than the average cost faced by domestic airlines in operating such services. Over the longer term, this could be expected to result in network rationalisation by local operators, whereby aircraft are redeployed onto higher-yielding routes at the expense

[4] *International Air Services Inquiry Report*, Productivity Commission, Report No. 2, 11 September 1998 at 220.

of marginally-profitable or loss-making regional routes that deliver little overall network benefit. Allowing foreign airlines to operate domestic services on the basis of consecutive cabotage rights would fail to give adequate recognition to the essential role that domestic airlines play in supporting Australia's tourism industry.

It is also important to note that under most of Australia's air services arrangements, foreign airlines have the ability to access multiple points in Australia, either with their own aircraft or under code share arrangements with domestic carriers. Under the Department's "Regional Package", foreign carriers are offered unrestricted access to all points in Australia other than Brisbane, Sydney, Melbourne and Perth on a unilateral basis during air services negotiations. In addition, most of Australia's bilateral air services agreements extend own stopover rights to foreign carriers, enabling them to carry their international passengers to multiple points in Australia with the same aircraft. Opportunities for foreign airlines to code share on Australian carriers' extensive domestic networks are also commonplace under Australia's air services arrangements. It is worth noting that the grant of consecutive cabotage rights in bilateral air services agreements globally is almost non-existent.

Australia's investment cabotage policy allows foreign entities access to the domestic market, but entails a necessary commitment to the establishment of a long-term presence, generating employment and supporting economic development. In contrast, consecutive cabotage allows foreign airlines to take opportunistic advantage of the domestic market, at the expense of the viability and stability of the local industry, with little benefit for the broader economy. The investment cabotage policy also promotes competitive discipline among domestic airlines, through the omnipresent threat of new market entrants.

Overall, the benefits to consumers, the tourism industry and the broader economy of permitting foreign airlines to serve the Australian domestic market would be limited. This was confirmed in the conclusions of the Productivity Commission in its inquiry into international air services, where it stated that, "…it is unlikely that such services would lead to substantial efficiency gains in Australian resource allocation, as the Australian airline industry is relatively efficient and internationally competitive."[5] Virgin Australia would argue that current levels of competition in all segments of the domestic market are substantially greater than was the case in 1998 when the aforementioned review was undertaken, which suggests that granting consecutive cabotage rights is unwarranted and would be highly unlikely to yield any tangible benefits for Australia's tourism industry.

Regulation of intrastate air services

High-yielding international tourists make a valuable contribution to the economic development of Australia's regions. Tourism development in these areas depends on access to regular, affordable, safe and reliable air services. Some state governments seek to impose regulatory restrictions on certain intrastate routes for public policy reasons, where access to such air services cannot be assured. This has implications for tourism growth in these regions.

As a general principle, Virgin Australia supports the introduction of competition on those routes capable of sustaining operations by two or more airlines. Whether a route is suitable for deregulation will depend on a wide range of factors, such as passenger volumes and growth, local population levels and growth, and current and planned significant economic projects or undertakings in the region. Decisions regarding the potential deregulation of any route must be assessed on a case-by-case basis, to ensure that adequate regard is given to the specific characteristics of the particular route.

[5] Ibid, at 227.

In Western Australia, regulated markets such as Perth-Albany and Perth-Esperance are unlikely to be suitable for deregulation, with passenger volumes below 60,000 and 45,000 respectively. Opening these routes to competition poses a significant risk of market failure, with consequential negative implications for regional communities and all sectors of their economies, including tourism.

In sharp contrast, the Queensland Government has determined that the Brisbane-Roma route will remain regulated and free from competition until at least 2020, notwithstanding that passenger numbers grew from just under 40,000 in 2008-09 to over 240,000 in 2013-14. This decision cannot be justified from either an economic or public policy perspective. The costs of restricting competition on this route will be borne by passengers, in the form of higher airfares and fewer travelling options, as well as the economy more broadly, including by limiting opportunities for growth in tourism.

In considering the need to restrict competition on intrastate routes, state governments should be encouraged to take into account the potential impacts of such decisions on the tourism industry, which is a vital economic sector within many regional communities. State governments must also recognise that if they wish to pursue defined objectives in relation to the adequacy of regional air services, eg frequency and pricing, the supporting regulatory framework cannot be based on a premise that private airline businesses will be prepared to operate services without generating a commercial return.

<u>International Air Services Commission</u>

The International Air Services Commission (IASC) allocates capacity available under Australia's bilateral air services agreements between Australia's international airlines. The legislative framework under which the IASC operates was established in 1992 and includes the *International Air Services Commission Act 1992 (Cth)* (the Act) and related Ministerial Policy Statement. This framework ensures that the process of negotiating additional capacity under Australia's air services arrangements, which is not wholly transparent, is separate from the process for allocating such capacity. An allocation of capacity is an economic right required by an Australian airline to operate an international service. Accordingly, Virgin Australia holds allocations of capacity from the IASC for each of our international routes.

In Virgin Australia's view, it is critical that the IASC continues to exist as an independent agency of the Australian Government, and perform its functions in accordance with a separate legislative framework. This provides stakeholders with the confidence that applications concerning allocations of capacity will be assessed in a timely manner, in accordance with a defined set of rules. As capacity is limited under many of these agreements, and an allocation of capacity is an essential economic regulatory requirement for the operation of services by Australia's international airlines, the independence of the IASC and the retention of its legislative framework are paramount in ensuring that the processes for the allocation of capacity remain both robust and transparent in order to foster competition between airlines.

Overall, Virgin Australia considers that the IASC's legislative framework is broadly effective in supporting its primary function of promoting economic efficiency through competition in the provision of international air services. We note that the last review of the IASC was undertaken well over a decade ago, which resulted in a number of changes to the Commission's legislative framework in order to streamline its processes, as part of the Commonwealth Government's response to the recommendations of the Productivity Commission's 1998 inquiry into international air services. While it is our experience that the IASC is an efficient and outcomes-focussed organisation, Virgin Australia believes a further review of its framework and supporting processes is now warranted given the significant structural changes that have occurred in Australia's aviation industry during the 13 years since the last review. This would provide the Commonwealth Government with a formal opportunity to assess the effectiveness of the IASC's functions in supporting the ongoing development of international tourism in Australia, informed by the views of industry stakeholders.

One particular aspect of the IASC's legislative framework that requires revision in order to deliver more efficient outcomes for the contemporary Australian aviation industry, is the stipulation that capacity can only be allocated to Australian carriers (not other companies). This places a unique restriction on the way in which Virgin Australia's capacity allocations may be utilised. It does, however, allow wholly-owned subsidiaries of the Australian carrier to whom the capacity has been allocated to use this capacity. This enables Jetstar Airways, as a wholly-owned subsidiary of Qantas Airways, to freely utilise capacity that has been allocated to Qantas Airways as a company that is also an Australian carrier.

The various international airlines within the Virgin Australia Group are each wholly-owned subsidiaries of Virgin Australia International Holdings Ltd, which is not itself an Australian carrier. As a result, capacity allocated to one of Virgin Australia's international airlines cannot be used by another unless an application is made to the IASC to effect a transfer between the two airlines. If it were possible to allocate capacity to Virgin Australia International Holdings Ltd initially, as the holding company for each of Virgin Australia's international airlines, transfer applications, which require submissions to the IASC, advertising of these applications in the national press and consideration by the IASC would not be necessary on the basis of the flexibility that the legislative framework provides in relation to the use of capacity by wholly-owned subsidiaries. It is important to highlight that the inability of capacity to be freely utilised by international airlines across the Virgin Australia Group entails significant commercial risk in relation to the continuity of our international operations, in cases where capacity which is the subject of a transfer application becomes contestable. This is an unintended consequence of the legislative framework, which was established at a time before Virgin Australia was an international operator.

Amending the legislative framework to permit capacity to be allocated to any entity would eliminate an unnecessary administrative burden for both the IASC and Virgin Australia, and better reflect the structural composition of Australia's aviation industry.

Input costs and associated regulatory and compliance burdens

To develop a strong and vibrant tourism industry, government must take steps to ensure that regulatory and compliance burdens are not impeding the same growth and competitiveness it is seeking to foster under the *Tourism 2020* strategy.

The challenges faced by the Australian aviation industry are particularly acute at present, as evidenced by the collapse of a number of smaller operators in recent times and the weak financial results of Australia's two major airlines. Against this backdrop, as noted above, efficient, cost-effective and balanced regulations can make a significant contribution to the viability and sustainability of the sector, and Virgin Australia welcomes efforts by the Commonwealth Government to reduce burdensome regulation under its red tape reduction programme.

Undertaking robust cost-benefit analyses before introducing new regulation and considering opportunities to streamline current regulation, or looking at new approaches that reflect contemporary challenges rather than simply adding layers of regulation over time, are important in this regard. This applies across the spectrum of key tourism inputs including air services, infrastructure, investment, and education and training. In Virgin Australia's view, there is scope to review and simplify the practical operation of a number of processes that apply to airlines, without any reduction in safety, security, regulatory compliance or consumer protection.

In accordance with our comments above regarding rising input costs faced by airlines, it is important to note that the suppliers of some key aviation inputs are government or government-owned entities. A key driver of the growth in Australia's aviation industry over the past decade has been airline productivity, attained through the continual pursuit of efficiencies. For the industry to achieve further productivity gains in the future, it is critical that the same rigour in performance expectations is applied to the efficient operation of these government-associated entities.

We note that the economic regulation of airport services is not within the scope of the Productivity Commission's research project. However, as one of the key costs for airlines, this has an indisputable impact on tourism's competitiveness. Virgin Australia considers that airports have been able to increase airport aeronautical charges above efficient levels and that increases in charges have significantly exceeded increases in costs. At the same time, services at airports have not generally improved in line with increased costs.

The current regulatory environment does not adequately facilitate commercial negotiations between airlines and airports due to the bargaining power imbalance that arises from airports' substantial market power and the inelastic demand for services at most airports. Price monitoring alone is not sufficient to constrain airports' market power and ensure that they provide services in an efficient manner and at appropriate prices. Virgin Australia considers that a 'negotiate-arbitrate' model would address this, with the threat of independent arbitration encouraging truly commercial negotiations between airlines and airports.

Passenger facilitation is an area where the tourism industry faces a heavy regulatory burden. The Commonwealth Government's joint review of border fees, charges and taxes represents a valuable opportunity to examine the impacts of these costs, not only on the tourism industry, but also the broader economy. Both the financial imposts faced by the tourism industry and the impact of border protection measures on the visitor experience have a significant bearing on Australia's competitiveness as a destination.

In particular, it is concerning that revenues collected by the Commonwealth Government through border fees and charges significantly exceed the expense associated with the provision of associated services. The largest single source of this revenue is the Passenger Movement Charge (PMC), levied at the rate of $55 on all passengers departing Australia. On short-haul international routes, the PMC is a significant proportion of an airfare, which acts to inhibit demand. The PMC must be reformed to accord with the Commonwealth Government's own cost recovery principles, as a matter of good public policy. This could be achieved through establishing five-year plans, in partnership with industry, which detail the services to be delivered and associated operating and capital costs. Any new facilitation services implemented by the government in the future, such as premium processing, should also conform to cost recovery principles.