



Executive Summary

The Victorian Chamber of Commerce and Industry welcomes the opportunity to submit recommendations to the Inquiry into Commonwealth Bilateral Air Services Agreements, 2023. As a leading business and industry body in Victoria, we represent a diverse membership, including major infrastructure entities like Melbourne Airport.

Aviation serves as the cornerstone of our national and international supply chains, supporting vital sectors such as tourism and higher education. However, challenges like rising airfares and deteriorating on-time performance, in some part attributable to a decrease in capacity and competition, impact Australia's attractiveness for both tourism and migration.

Competition within the airline industry is crucial for fostering innovation, enhancing customer satisfaction, and promoting affordability. Hence, proactive measures to nurture competition in aviation are vital for our nation's prosperity.

We advocate for a strategic approach to Bilateral Air Services Agreements (BASAs). This entails coordinated involvement of stakeholders from airlines, airports, governments, industry and tourism bodies and trade agencies. Additionally, embracing an "Open Skies" approach in BASAs can amplify Australia's international air services and stimulate competition.

Summary of recommendations:

1. Ensure Bilateral Service Agreement processes are informed through a strategic approach, including wide ranging consultation, to promote proactivity in aviation and deliver a stronger service.
2. Take a stronger "Open Skies" approach to Bilateral Service Agreements to increase the attractiveness and ease of flying to Australia.
3. Ensure specific airline decisions are made with transparency to ensure untapped aviation capacity is realised.
4. Review and reform the legislation and frameworks that impact aviation capacity.

Opening remarks

The Victorian Chamber of Commerce and Industry welcomes the opportunity to make a submission to the Inquiry into Commonwealth Bilateral Air Services Agreements, 2023.

As Victoria's leading business and industry body, each year the Victorian Chamber informs and services more than 65,000 members, customers and clients across the State. Our work encompasses all industry sectors, spanning small, family, medium and large enterprises. Our membership includes large infrastructure businesses, such as Melbourne Airport.

Aviation connects Australia to the world. Aviation is the foundation of national and international supply chains and enables key sectors such as tourism/visitor economy and higher education. Pre-pandemic, tourism contributed \$122 billion on an annual basis to the Australian economy and directly employed 666,000 Australians (five per cent of Australia's workforce).¹ High value freight from many sectors also depends on aviation. Higher traffic to Australia from international markets also benefits domestic Australian airlines.

¹ Tourism Australia. (n.d.). [The Economic Impact of Tourism](#).

Australia's aviation sector is robust but can be better. This Inquiry and current focus on promoting competition represent a distinctive opportunity to further advance the aviation sector, positioning Australia for sustained success and enhanced global connectivity in the long term.

Currently, Australia is experiencing increased prices in airfares alongside worsening recent cancellation and delay rates.² Domestic on-time performance for April 2023 was 71.8 per cent. This is well below the long-term industry average of 81.5 per cent.³ The Australian Competition and Consumer Commission (ACCC) found in its June 2023 report on *Airline Competition in Australia* that airfares have risen above pre-pandemic levels and at levels higher than accounting for inflation. For instance, airfares to Europe are 21 per cent above pre-pandemic levels, according to aviation analytics firm Cirium, with average return flights shifting from \$1743 to \$2109 (based on October 2019 and 2022).⁴

High airfares, alongside considerable delays in the migration system, decrease Australia's attractiveness as a destination for tourism and work. High airfares mean Australians can travel less – limiting people from seeing overseas friends and family - but are also a handbrake on tourism and workers.

Competition within the airline industry fosters innovation and drives airlines to continually improve their services, leading to enhanced customer satisfaction. It results in more choices and lower prices for passengers, thereby enhancing the accessibility and affordability of air travel for a broader range of people and increasing airfreight and export opportunities.

Taking proactive measures to nurture competition in the aviation industry is essential, which forms the foundation of the points in this submission.

A new approach to Bilateral Air Service Agreements

The Bilateral Air Services Agreements (BASA) process is managed by the Department of Infrastructure, Transport, Regional Development, Communication and the Arts (the Department).

The Victorian Chamber understands the forward planning process for Australian BASAs occurs in a somewhat ad-hoc nature. In these processes, stakeholders are engaged solely with the Government in a short period of time to suggest the air service destination and quantum for the next foreseeable period.

This process would benefit from a more strategic approach going forward, which would enable and incentivise stakeholders to take a more coordinated and proactive approach to attracting international carriers. Gathering stakeholders from airlines, airports, State and Federal Governments, industry and tourism bodies, and trade agencies would enable BASA negotiations to be undertaken in a more nuanced and structured manner.

With increased coordination between stakeholders about the future demand and target markets in aviation, infrastructure can also be planned and delivered to ensure successful experiences for travellers who result out of BASA negotiations.

Further, BASAs through an 'Open Skies' approach would help develop Australia's international air services. Analysis has shown that Australia has a "low rate of liberalisation" and recommends it "open up the level of freedoms" in its agreements.⁵ Australia has Open Skies deals with seven nations. In contrast, the US has more than 130 Open Skies agreements and Singapore has more than 60.⁶

²Australian Competition and Consumer Commission. (2023). [Airline competition in Australia – June 2023 report](#).

³Ibid.

⁴ Traveller. (2023). [Why flights from Australia to Europe are so expensive in 2023: Expect to pay double this northern summer](#).

⁵ Heiets, et al. [Analysis of Bilateral Air Services Agreement Liberalization in Australia](#).

⁶ AFR.(2023). [Why only some airlines are allowed to fly in and out of Australia](#).

Liberal air services agreements, or "Open Skies" arrangements, are agreements that do not impose restrictions on the routes airlines can operate, the frequency of flights, or the number of passengers they can transport. In exchange for these freedoms, the airlines from participating countries gain straightforward access to airports.

Increased capacity, further facilitated through Open Skies, allows for further competition. Increased capacity and competition are highly likely to result in more options, more innovation and sustainable air fares. It goes without saying that improved service and decreased fares positively impact Australia's desirability as a tourist and migration destination.

It is also crucial that specific airline decisions are made with transparency, and ensure that any untapped capacity in Australia's aviation sector is realised.

Recommendations:

1. Ensure Bilateral Service Agreement processes are informed through a strategic approach, including wide ranging consultation, to promote proactivity in aviation and deliver a stronger service.
2. Take a stronger "Open Skies" approach to Bilateral Service Agreements to increase the attractiveness and ease of flying to Australia.
3. Ensure specific airline decisions are made with transparency to ensure untapped aviation capacity is realised.

Legislation and frameworks to enable strategic and proactive Australian aviation

Legislation that enables the successful delivery of BASA commitments is important to maintaining the capacity, and therefore airline competition, in the Australian aviation landscape.

A more strategic policy framework for airport development planning is crucial. The existing framework has remained largely unchanged for more than 25 years. Airports face practical and economic challenges that make the current framework no longer fit-for-purpose suitable for their needs. Continuing to uphold the current level of complexity and regulatory burden risks limiting airport growth.

The need for reform to the airport planning system and the Airports Act is amplifying physical constraints (e.g., terminal upgrades) at some Australian major 'gateway' airports in building increased connectivity to key Middle Eastern and Asian hubs and ports in North Asia, South Asia, Southeast Asia and the Pacific Islands. Other growth markets (such as Canada / South America) face similar constraints.

For instance, the current \$25 million monetary threshold for the requirement of a Major Development Plan, established in 2018, is impractically low. This threshold does not reflect the changed environment in the civil construction industry caused by supply chain disruptions, the increased costs of materials, tight labour markets and Australia's overheated civil construction market.

Recommendations:

4. Review and reform the legislation and frameworks that impact aviation capacity.

Concluding remarks

To conclude, Federal Government decisions concerning additional services to Australia's airports have ramifications that extend beyond the number of flights in the sky. Infrastructure to accommodate these flights needs to be delivered in advance. Overall, more capacity through strategic planning and the right settings equals more airline competition. More airline competition means better airfares and higher demand. As a strong export nation that also relies heavily on tourism, getting our aviation landscape right is critical for Australian growth.