



## **Inquiry into Australia's relationship with Mexico**

*TR point "c": potential opportunities for enhanced trade and investment ties, in particular those emanating from the proposed Trans Pacific Partnership (TPP);*"

*"Submission into the viability of establishing Direct Flights Australia-Mexico: A current assessment and recommendations"*

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*Capablanca, the great Latino chess champion knew that if you wanted to win you had to play the game with a few surprises up your sleeve and some sleek creative and technical movements. He used to say it was all about the art of building the midgame and how that build takes us to the endgame. This Senate inquiry is building the midgame...*



## Executive Summary

Although there is a strong body of evidence pointing to the “Trade and Investment” multiplying effect of direct flights between two countries, evidence that has been acknowledged by both Australia and Mexico in several Enquiries and Reports, direct flights are continuously seen by some people (based on the 2007 analysis conducted by the Department of Transport and Regional Services DOTARS) as an unattainable goal for economic, technical and legal reasons.

In this brief Submission we address some of these economic, technical and legal concerns. We also analyse the changing context generated by the signing in Canberra of the TPP Agreement on the 6<sup>th</sup> of October 2015, the Mexican Government’s plans to build a new international airport for Mexico city and the increasing presence in Mexico of some of the best known Australian companies (BHP, WorleyParsons, Rio Tinto etc). Based on an analysis of these factors, we conclude that ***it is possible and strategically desirable*** for both countries to establish direct flights from Australia to Mexico. Flights that can also service other two members of the TPP grouping: Colombia and Peru. This can be done either via Auckland, NZ to Cancun, Mexico as either a Qantas share-code arrangement with Emirates and/or by Virgin Australia/Air New Zealand by 2018 and via direct flights between Melbourne, Sydney and/or Brisbane to Mexico City by 2022.



- 1 ANZMEX strongly recommends as soon as possible, the formation of a taskforce made up of Australian and Mexican authorities, representatives from the above mentioned airlines, by representatives of the respective Tourism organizations and by ANZMEX, to analyse with more rigor the possibility of establishing direct flights between Auckland, NZ and Cancun, Mexico, and to update, change and/or supplement the assumptions and information presented in this Submission.
  
- 2 If feasible, the taskforce should report to the Senate the findings of this study by the 14th of March 2016, a very symbolic date as it marks 50 years since Australia and Mexico re-established their diplomatic relations after the Second World War.



## Introduction

There is an increasing body of evidence<sup>123</sup>, that points towards the critical role of direct air links (known in the aviation industry as air connectivity) to serve as a catalyst for accelerating trade between two countries by:

- substantially reducing the cost of trade
- facilitating an increasing traffic of business information
- promoting mutual cultural and language understanding via increased and more frequent tourism.

**THE GOVERNMENT RECOGNISES THE FUNDAMENTAL LINK BETWEEN IMPROVING DIRECT AIR SERVICES BETWEEN VICTORIA AND KEY INTERNATIONAL MARKETS AND GROWING THE STATE'S EXPORT SECTORS OVER THE LONG TERM,**

**JUSTIN WASTNAGE, POLICY DIRECTOR, AVIATION TOURISM TRANSPORT, AUSTRALIAN FORUM**

**WE FIND THAT A DIRECT SHIPPING CONNECTION MORE THAN DOUBLES TRADE IN GOODS. SIMILARLY, COUNTRIES WITH DIRECT FLIGHT CONNECTIONS TO THE SENDING COUNTRY WELCOME TWICE AS MANY TOURISTS.**

The links between trade, tourism and direct flights have been acknowledged in a number of Enquiries and Reports. The 1992 Senate Inquiry into the Relationships between Australia and Latin America in its recommendation thirty one<sup>4</sup> proposed the formation of a taskforce to work among other things in the establishment of international services (some of them are already operating by Qantas and Lan between Australia and Chile). The more specific Inquiry into Australia's trade with Mexico and the Region Trade Sub-Committee House of Representatives Joint Standing Committee on Foreign Affairs Defense and Trade from August 2007 in the point 5.28 also highlighted this issue:

“ It is believed however that more significant growth is hampered by the long distances separating Australia and Mexico and the absence of direct flights. Currently, both

<sup>1</sup> Cristea, Anca (2009). Information Inputs and International Trade: Evidence from USA State Level Data on Business Air

<sup>2</sup> Yilmazkuday D. and Yilmazkuday, H. (2014). The Role of Direct Flights in Trade Costs. Florida International university

<sup>3</sup> Yilmazkuday D. and Yilmazkuday, H. (2014). The Role of Direct Flights in Trade Costs. Florida International university

<sup>4</sup> Inquiry into Australia's relationship with Latin America, Senate Standing Senate Committee on Foreign Affairs, Defense and Trade , November 1991 (published in 1992).



Qantas and Mexicana<sup>5</sup> operate flights to and from Australia and Mexico that travel through the United States of America.

DEST outlined a key disincentive of such travel in evidence provided to the committee:

“If you are coming from Mexico, at the moment without direct flights, you have to go via LA and there is quite a laborious process to come through the US as you need a transit visa”<sup>6</sup>.

At the same enquiry, representatives of DOTAR and Qantas rejected the possibility of direct flights in the short and medium terms, although Qantas left the door open to review this assessment in the future. To summarise:

5.29 Evidence from DOTARS show that it is unlikely that there will be direct flights between Australia and Mexico in the near future:

. . . the size of the Australia-Mexico aviation market means that it is unlikely that carriers of either country will operate own-aircraft services for some years to come. Around 28,400 origin destination passengers—those originating in or destined for either country— travelled between Australia and Mexico in the year to April 2007. This equates to approximately 273 passengers each way each week.<sup>7</sup>

5.30 Qantas' submission echoed this but pointed out that, with development of the market, direct services to Mexico may become viable:

It is envisaged that Qantas will continue to develop our relationship with Mexicana over time. The code share

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<sup>5</sup> Mexicana de Aviacion was declared in Bankruptcy on the 4th of April 2014.

<sup>6</sup> Ms Fiona Buffinton, Group Manager, International Education Group, Department of Education, Science and Training, *Evidence*, 22/06/2007, p. 2.

<sup>7</sup> Mr Iain Lumsden, Acting General Manager, Bilateral Aviation, Aviation and Airports Business Division, Department of Transport and Regional Services, *Evidence*, 22/06/2007, p. 13.



arrangement may assist the development of the market to a point where direct services become a viable option for either carrier in the long term<sup>8</sup>.

The 2007 House of Representatives Inquiry into Australia's trade with Mexico and the Region Trade Sub-Committee identifies also this air link barrier: "The Report

details significant limitations holding back stronger economic relations. These include a lack of awareness (particularly in Mexico) of the Australian market and the value Australia offers as a base for dealing with East Asia. Lack of good transport links also serves as an impediment in developing trade."<sup>9</sup>

Our analysis presented in this submission reviewed some of the 2007 DOTARS assumptions and statistics, such as the destination passengers statistics, and considered these in light of more recent (2014) figures and analysed the changing context generated by a strong push by Hon Tim George Australian Ambassador in Mexico, Chris Rodwell, Austrade Trade representative, the Mexican Ambassador in Australia, Hon Armando Alvarez Reyna, and Adrienne Bonwick President of ANZMEX in Mexico to strengthen the economic bilateral relationship between both countries.

### **Business Analysis Methodology**

There are many factors (competitors, alternative routes, air classes mix between economy, premium, business etc) that airline decision makers working on the viability to establish new routes take into consideration. While it is not possible to cover all of these within the scope of this submission or to provide here the expertise and resources needed to carry out this task with the necessary business rigor, we can provide some information about a number of minimum economic, technical and legal

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<sup>8</sup> Qantas, *Submission No. 14, Vol 1*, p. 197.

<sup>9</sup> Inquiry into Australia's trade with Mexico and the Region Trade Sub-Committee, House of Representatives Joint Standing Committee on Foreign Affairs Defence and Trade, August 2007, Canberra



requirements (baseline categories) that airlines evaluate before undertaking a more detailed analysis of the new routes.

Currently, there are no direct regular passenger flights between Mexico and Australia. Qantas, Virgin and United Airlines offer the most direct flights but all are

via the USA through Los Angeles, Dallas-Fort Worth and San Francisco. Virgin Australia's codeshares into Mexico with Delta Airlines. Qantas codeshares into Mexico with American Airlines and Alaska Airlines<sup>10</sup>.

For this analysis, we selected two specific air routes and propose two potential timeframes (2018 and 2022) to implement these new routes. The first is Melbourne/Auckland/Cancun. This route will also provide the opportunity to Australia and New Zealand to develop joint strategies to increase their relationship with Mexico and Latin America.

This choice of route takes into account the fact that Mexico city's airport (AICM) does not have enough capacity to receive new airlines and has limited capacity to accommodate new long haul planes (A380 and/or 787 Dreamliner) based on current airport capacity. Cancun on the other hand already has both the available airport capacity and the capacity to receive long haul flights<sup>11</sup>. In fact, Air France will begin to operate three weekly services from Paris to Cancun from January 2016 using A380's<sup>12</sup>. Further, Mexico is building a game changing US\$10 billion new airport (NAICM) which it would be operational by 2020. This new airport would have both airport availability and the capacity to receive A380's and the Dreamliner 787<sup>13</sup>. Finally we provide a brief analysis on the changing nature of the relationship between Australia and Mexico and the increasing presence of Australian business in this country.

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<sup>10</sup> ANZMEX Business Council (Mexico) Submission on direct flights, October 2015

<sup>11</sup> <http://corporate.airfrance.com/es/prensa/noticias/article/item/vuelo-excepcional-del-airbus-a380-de-air-france-a-cancun-mexico-1/>

<sup>12</sup> <http://corporate.airfrance.com/en/press/news/article/item/air-frances-a380-is-coming-to-mexico-1/>

<sup>13</sup> <http://mexico.cnn.com/nacional/2014/09/04/9-puntos-clave-sobre-el-nuevo-aeropuerto-de-la-ciudad-de-mexico>



## **Economic, Technical and Legal Baseline categories**

### ***Economic***

The baseline viability of the new routes economic model is measured and assessed by four indicators:

1. The origin destination passengers (known also as critical passenger mass)
2. Competitiveness in distance, time and price
3. Potential demand in Mexico
4. Potential competitors (new entries)

#### **1. The origin destination passengers (also known as “critical passenger mass”)**

We classified destination passengers into categories of primary and secondary demand. The demand from primary passengers is made up of Australians, New

Zealanders and Mexicans travelling for any purpose to each of their countries of origin destinations. The demand from secondary passengers is ,made up of people from third Caribbean, Central American and/South American countries that for geographical convenience, purpose, connectivity and/or price may decide to fly directly from Mexico.

The DOTARS figures indicated that there were around 28,400 origin destination passengers in 2007. This figure was clearly *insufficient* at the time to justify further analysis. According to the Aviation expert, Federico Zamudio, airlines require at least 50,000 origin destination passengers to consider exploring the possibility of establishing any new route. The most recent primary passenger demand statistics has already overtaken the 50,000 baseline figure by 66%.





**Primary passengers demand (PPD)**

<b>Mexico as the main destination</b>	<b>2014</b>
Australians	67,918
New Zealand	3,200
<b>Total</b>	<b>71,118</b>

<b>Australia as the main destination</b>	<b>2014</b>
Mexico	8,300

<b>New Zealand as the main destination</b>	<b>2014</b>
Mexico	3,440

<b>Total</b>	<b>82,858</b>
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PPD is growing at a very fast and consistent pace according to the Migration Unit of the Mexican Government (SEGOB)<sup>14</sup>. Australian visitors to Mexico by airplane grew 18% between 2012/2013, 7% between 2013/14 and 8% during the first six months of 2015.

Concept	2012	2013	% Growth	2014	% Growth
Australians visiting Mexico by Plane	53,698	63,398	18%	67,918	7%

Even if the number of Mexicans and New Zealanders travelling from/to Mexico remain constant, the PPD would reach the 100,000 people mark by 2018 and 120,000 by 2021. This is more than twice the number of origin destination passengers that Aviation expert, Federico Zamudio, suggested would warrant consideration of a new route.

Concept	2014	2015	% Growth	2018	2021
	Jan-Jun	Jan-Jun		Est at 8% growth/year	Est at 8% growth/year
Australians visiting Mexico by Plane	34,077	36,732	8%	85557	107777

<sup>14</sup> Ranking de llegadas de visitantes internacionales a México por vía aérea, SEGOB, UPM, cifras preliminares



## Secondary passengers demand (SPD)

Although it was not possible to obtain information from 2014 for Colombia, Peru and Ecuador, we were able to obtain the relevant information from New Zealand:

<b>New Zealand as the main destination</b>	<b>2014</b>
Colombia	1168
Venezuela	128
Ecuador	208
Other Central American Countries	300
<b>Total</b>	<b>1804</b>

We can confidently assume that Australia received at least 6,533 people classified as

SPD's, based on the fact that Australia granted in 2011/12<sup>15</sup> student visas to 5,716 Colombians, 573 Venezuelans, 176 to Ecuadorians and 90 other people from Central America.

The PPD and SPD in 2014 have reached at least the 90,000 people mark, representing a very different situation to that indicated in the 2007 inquiry.

## 2. Competitiveness in distance, time and price

### Competiveness in Distance

The secondary passengers demand figure was calculated based on distance and time to destination and price. For instance the 18,578 km distance between Bogota/Santiago/Auckland/Melbourne is greater than the 17,025km distance from a Bogota/Cancun/Auckland/Melbourne flight, making this potential route very competitive in relation to the distance factor. This comparison is still better from

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<sup>15</sup> Source: Department of Immigration and Citizenship, Student Visa Grants by Sector and Country: <http://www.immi.gov.au/media/statistics/study/>.



Venezuela. For instance the distance from Caracas/Santiago/Auckland/Melbourne is 19,481 km in relation to 17,172 km from the Caracas/Cancun/Auckland/Melbourne flight. Even a flight from Quito, Ecuador to Melbourne via Auckland and Cancun is as “distance competitive” as those taking the route Quito/Santiago/Auckland /Melbourne route.

Routes	Distance (KM)
Mexico to Lax	2491
Lax to Melbourne	12766
<b>Total</b>	<b>15257</b>

Bogota to Santiago	6290
Santiago to Auckland	9664
Auckland to Melbourne	2624
<b>Total</b>	<b>18578</b>

Caracas to Santiago	7193
Santiago to Auckland	9664
Auckland to Melbourne	2624
<b>Total</b>	<b>19481</b>

Quito to Santiago	5246
Santiago to Auckland	9664
Auckland to Melbourne	2624
<b>Total</b>	<b>17534</b>

Routes	Distance (KM)
Mexico to Cancun	1282
Cancun to Auckland	12111
Auckland to Melbourne	2624
<b>Total</b>	<b>16017</b>

Bogota to Cancun	2290
Cancun to Auckland	12111
Auckland to Melbourne	2624
<b>Total</b>	<b>17025</b>

Caracas to Cancun	2437
Cancun to Auckland	12111
Auckland to Melbourne	2624
<b>Total</b>	<b>17172</b>

Quito to Cancun	2540
Cancun to Auckland	12111
Auckland to Melbourne	2624
<b>Total</b>	<b>17275</b>

Routes	Distance (KM)
Mexico-LAX-Melbourne	15257
Mexico-Cancun-ACK-Mel	16017
<b>Distance Difference</b>	<b>760</b>

Bogota-Santiago-ACK-Melb	18578
Bogota-Cancun-ACK-Melb	17025
<b>Distance Difference</b>	<b>-1553</b>

Caracas-Santiago-ACK-Melb	19481
Caracas-Cancun-ACK-Melb	17172
<b>Distance Difference</b>	<b>-2309</b>

Quito-Santiago-ACK-Melb	17534
Quito-Cancun-ACK-Melb	17275
<b>Distance Difference</b>	<b>-259</b>

### Competiveness in Time and Price

The current Australian-Latin American route is very expensive and requires taking lengthy flights and time-consuming connections in transit points like Santiago, Los Angeles or Dallas. In order to compare the current length of time and ticket price, we retrieved price and travelling information from Expedia.com.au from different routes on the same departure and return dates. In a more rigorous analysis, airlines calculate these costs by examining a number of factors such as the access rights to airport and airplane's cost of maintenance and fuel consumption.

The average ticket price was \$5,471 and the length of time between departure and arrival was 34 hours. We do not have enough information to calculate the ticket price from our proposed new route Mexico/Auckland/Melbourne, however we have estimated the total average time of 28 hours for this route (including 5 hours for airport transits). The potential direct flight from Mexico to Melbourne by 2022 could cut this flying time by 6 hours. It would be indeed very competitive.



## Time and Price Comparison

### Flight period 7th of January - 30th of June

<b>Routes</b>	<b>Time</b>	<b>Price*</b>
	<b>Hours</b>	<b>(\$Aus)</b>
Mexico-LAX-Melb	38	\$4,112
Mexico-Dallas-Melb	32	\$4,721
Bogota - Melbourne (via Dallas)	32	\$4,888
Bogota- Melbourne (via Santiago)	32	\$4,884
Caracas to Melbourne (via Dallas)	33	\$9,194
Caracas to Melbourne (via Santiago)	31	\$5,641
Quito to Melbourne (via Dallas)	39	\$4,590
Quito to Melbourne (via Santiago)	32	\$5,735
<b>Average</b>	<b>34</b>	<b>\$5,471</b>

Using  
 Expedia.com.au

\* Cheapest route found on the 22/9/2015- date of retrieval

In terms of price and time both proposed new routes are very competitive.

### 3. Potential demand in Mexico

According to the aviation expert Federico Zamudio, any airline willing to examine the viability of a new route would have to take into consideration the financial capacity of the people in Mexico, Central America, and Venezuela, Colombia and Ecuador to afford travel to Australia and vice-versa. Zamudio notes that most airlines would be looking at having at least three air services a week to make the new route profitable in relation to other competing options. This number of flights would require a concerted and sustained effort on the side of Australia, New Zealand and Mexico to promote this route as no airline could afford to *rely only* on PPD's historical growth trend.

Mexico's National Institute of Statistics and Geography (INEGI) reported that the



country's elite upper class includes 1,340,000 people or 1.7 percent of all the country's inhabitants. The same Institute adds that "...the middle class in Mexico includes 39.2 percent (44 million people) of the country's total population. Mexico's middle class increased 11.4 percent during between 2000 and 2010".

Both the upper class and the middle class represent more than 45 million people; twice the population of Australia. The question is that most of Mexico's financially affluent people travel to USA, Europe and Canada and do not consider travelling to Australia and/or New Zealand as an alternative destination. Destination Canada Reports<sup>16</sup>:

"...While Mexicans take around 15 million international trips each year, long-haul travel has ebbed over the past three years, from 78% to 72%. Approximately 25% of Mexican travel (3.8 million trips) is long-haul, with the US the dominant player in this market, claiming 60% of those trips. Spain trails in a distant second, with the Caribbean, Canada and Italy in joint third, each with 8% of the market".

The Australia/ New Zealand/ Mexico route could be made more attractive to potential passengers if Mexicans could apply for the Australian Electronic Travel Authority-ETA (subclass 601)<sup>17</sup> that cost \$20.00 dollars only and/or the eVisitor (subclass 651)<sup>18</sup> which is free. At the moment Mexicans are not eligible to apply for these categories of visas. We conducted a more detailed analysis on the type of visas available to Mexicans in another of ANZMEX Submission to the Senate Inquiry.

#### **4. Potential demand in Mexico (new entries)**

Airlines are businesses looking for the most profitable market, and may experience strong competition from time to time. There is a push from a number of high-level political groupings (like the National Conference of State Premiers in Mexico –

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<sup>16</sup> [http://en.destinationcanada.com/content/ctc\\_news/global-tourism-watch-report-summary-2013-mexico](http://en.destinationcanada.com/content/ctc_news/global-tourism-watch-report-summary-2013-mexico)

<sup>17</sup> This visa lets the applicant visit Australia: to visit or for business visitor purposes, as many times as the applicant's want, for up to a year, and stay up to three months for each visit. There is a service fee of AUD20.

<sup>18</sup> This visa lets the applicant visit Australia: to visit or for business visitor purposes, for up to three months at a time within a 12-month period. This is a free visa.



CONAGO<sup>19</sup>) and tourism organizations in Cancun to allow tourist destinations to have an “Open Skies Policy”. In Mexican political debate, this policy has been discussed in terms of “*when*” and not “*if*” it would be approved by the Mexican Congress. This policy would encourage new entries into the Mexican aviation market. However the “price of entry” would be higher for those airlines that try to enter this market last.

## Technical

This submission analysed three technical aspects:

- a) The technical capacity of long haul airplanes to fly to Mexico and/or Cancun
- b) The airlines current available capacity to allocate a long haul planes to a new route
- c) The capacity of Mexican airports to accommodate new airlines
- d) Airline’s costs for taking off, landing and FIS

### **a) The technical capacity of long haul airplanes to fly to Mexico and/or Cancun**

Both the Airbus A380 (15,750 km) and the Boeing Dreamliner 787 (15,200km) have enough capacity to fly directly either to Mexico City (13,554km) and/or Cancun, via Auckland (12,111km). In comparison, the current Qantas flight Sydney to Dallas<sup>20</sup> covers a distance of 13,804 km.

However there is one barrier to overcome, which has economic implications. This is in relation to Mexico City altitude of 2,250 metres of the sea level. This means that at a high altitude there is low air density that reduces an aircraft's ability to climb. In order to reduce the risk associated to these atmospheric phenomena, aviation authorities require airlines to reduce aircraft’s weight. This translates into a reduction of available seats between 10% to 20%. In other words airlines would have to leave

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<sup>19</sup> <http://www.conago.org.mx/Comisiones/Actuales/Turismo/>

<sup>20</sup> It has been argued that the longest route between two destinations is the one flown by Emirates from Panama-Dubai, using an A380 (13,821 km).



between 10 to 20% of seats empty to be able to land safely (and according to international regulations) into Mexico City. This safety issue results in higher costs for the airline resulting in higher air ticket prices. The good news is that any competitor would be in the same situation.

**b) The airlines' current available capacity to allocate a long haul planes to a new route**

Both Qantas and Virgin do not have any current spare capacity to develop new routes. However this situation may change within the next five years.

According to the Qantas website: Qantas now has 12, A380-800 aircraft operating on selected flights from Sydney and Melbourne to Los Angeles, Hong Kong, Dubai and London, with an additional 8 to be delivered by Airbus by 2020<sup>21</sup>. Most of the “A380 to be delivered” would be covering new routes in the USA. The Qantas Group has

firm orders for 14 Boeing 787-8 aircraft and 50 option/purchase right orders for 787-9 aircraft. The first Dreamliner is expected to arrive in October 2018. Qantas could exercise one of its options to open the new route to Mexico City by 2021.

Virgin Australia has 5 Boeing 777-300ER<sup>22</sup>. All of them are already placed in very profitable routes. According to the Australian Business Traveller News<sup>23</sup>, Virgin Australia has beefed up its order book for the Boeing 737 MAX from 23 of the fuel-efficient jets to 40 – but at the cost of short-term growth of its domestic Boeing 737 fleet. This airplane does not have the range to fly the new routes proposed in this submission. However, Virgin Australia has the door open to access bigger airplanes from its partners' airlines. The Australian Business Traveller News reported that Virgin Australia CEO John Borghetti would consider placing a shared order for either the Airbus A350 or Boeing 787 with partners Etihad Airways, Singapore Airlines and Air New Zealand<sup>24</sup>. Etihad Airlines placed an order for 10 A380's in 2014.

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<sup>21</sup> <http://www.qantas.com.au/travel/airlines/fleet-developments/global/en#airbus-a380>

<sup>22</sup> <http://www.virginaustralia.com/au/en/experience/on-board-the-flight/our-fleet/>

<sup>23</sup> <http://www.ausbt.com.au/virgin-australia-boosts-boeing-737-max-order-via-delayed-737s>

<sup>24</sup> <http://www.ausbt.com.au/virgin-australia-mulls-bulk-order-for-airbus-a350-boeing-787>



Emirates airlines, a power house in the aviation industry, has placed orders to buy 140 A380's<sup>25</sup>. It has already received 65 airplanes and has plenty of capacity to explore new routes in a coding arrangement with Qantas. Emirates already flies to Auckland and from Dubai to Dallas. The connection Auckland/Cancun/Dallas could also be seen as the natural progression of Emirates to cover this route from both sides of the world.

Potentially, Qantas could explore a new Mexican route either by itself or by a code arrangement with Emirates by 2018. Virgin Australia could do the same partnering with Etihad or Air New Zealand. There are possibilities at the door, in other words.

It is a matter of priorities and alternating business propositions more profitable and/or more secure.

### **c) The capacity of Mexican airports to accommodate new overseas airlines**

The Mexico City Airport (known commonly as AICM) lacks capacity to accommodate new entrants. It is now the busiest airport in Latin America. In 2014, it served 32 million passengers. Although the AICM will be capable of receiving A380's from October 2015<sup>26</sup>, there is no current capacity to accommodate new airlines. However, the new Mexican airport (NAICM) , under construction would have both available capacity to accommodate new entrants and to receive long haul planes. But it will not become operational until 2021/22. The new airport will have the capacity to serve 120 million passengers a year and is considered by the aviation and tourism experts as the “new door to central and South America”. Cancun airport has spare capacity and the ability to receive A380s. As mentioned earlier, Air France will start operating services from Paris to Cancun (8196km) in January 2016. The game-changing nature of the NAICM (4th largest airport, hub for the Americas, quadrupling capacity) will redefine the trade and tourism opportunities in the

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<sup>25</sup> [https://en.wikipedia.org/wiki/List\\_of\\_Airbus\\_A380\\_orders\\_and\\_deliveries#cite\\_note-16](https://en.wikipedia.org/wiki/List_of_Airbus_A380_orders_and_deliveries#cite_note-16)

<sup>26</sup> <http://www.dineroenimagen.com/2015-01-06/48789>





America's region. This redefinition has been noted by Asian airlines<sup>27</sup> who have expressed their intentions to flight to Mexico directly (e.g. Qatar<sup>28</sup>, Korean Airlines, Emirates etc)

#### **d) Airline's fees for taking off, landing and FIR**

There are a variety of costs associated to any particular route, Taking off and landing fees represent an important cost factor. Both costs are in line with international costs standards. The airports' fees are regulated by the Mexican Congress through the Airports Law<sup>29</sup>. These regulations applied in all the country.

There is no information available about the potential costs of using the new Mexican

international airport (NAICM). This route fees could be sometimes more costly than the taking off and landing fees. However Victor Ortega<sup>30</sup>, Aerial Validity expert said that the route (MEL-AKL-MEX) covers the Flight Information Region (FIR)<sup>31</sup> of Australia, New Zealand, Tahiti and México. In this case the only aerial space that is subject to this fee is Tahiti.

### **Legal**

In 2007, the legal framework to allow direct flights between Australia, New Zealand and Mexico was very weak. However, by 2014 this framework is strong enough to support this endeavour. There are 5 Air Services Agreements between the parties concerned and two airline code sharing alliances in place.

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<sup>27</sup> All Nippon Airways (ANA) announced a direct flight Tokio – Mexico city by 2016 (distance (10,797 KM), <http://www.economiahoy.mx/economia-eAm-mexico/noticias/6794070/06/15/Aerolinea-japonesa-ANA-conectara-con-un-vuelo-directo-TokioCiudad-de-Mexico.html#.Kku8rbid2pdHffR>

<sup>28</sup> <http://www.dineroenimagen.com/2014-11-05/45923>

<sup>29</sup> LEY DE AEROPUERTOS Nueva Ley publicada en el Diario Oficial de la Federación el 22 de diciembre de 1995  
TEXTO VIGENTE última reforma publicada DOF 26-01-2015

<sup>30</sup> Victor Ortega is a Validation Specialist, residing in Australia since 2003, with 12 years experience in Air Traffic Control systems

<sup>31</sup> More information: <http://gis.icao.int/icaofir/>



<b>Year</b>	<b>Agreement</b>	<b>Countries</b>	<b>Source</b>
<b>1998</b>	New Zealand's air services agreements	New Zealand/UAE	<a href="http://www.transport.govt.nz/air/internationalairservices/newzealandsairserviceagreements/">http://www.transport.govt.nz/air/internationalairservices/newzealandsairserviceagreements/</a>
<b>1999</b>	New Zealand's air services agreements	New Zealand/Mexico	<a href="http://www.transport.govt.nz/air/internationalairservices/newzealandsairserviceagreements/">http://www.transport.govt.nz/air/internationalairservices/newzealandsairserviceagreements/</a>
<b>2003</b>	Agreement Between The Government of Australia and the Government of New Zealand Relating to Air Services	Australia/New Zealand	<a href="http://www.austlii.edu.au/au/other/dfat/treaties/2003/18.html">http://www.austlii.edu.au/au/other/dfat/treaties/2003/18.html</a>
<b>2005</b>	Agreement Between the Government of Australia and the Government of United Arab Emirates Relating to Air Services	Australia/UAE	<a href="http://www.austlii.edu.au/au/other/dfat/treaties/2005/8.html">http://www.austlii.edu.au/au/other/dfat/treaties/2005/8.html</a>
<b>2011</b>	The Government of Australia and the Government of the United Mexican States Relating to Air Services	Australia/Mexico	<a href="http://www.austlii.edu.au/au/other/dfat/treaties/2011/18.html">http://www.austlii.edu.au/au/other/dfat/treaties/2011/18.html</a>
<b>2014</b>	Air New Zealand - Virgin Australia Group Alliance Reauthorisation	Air New Zealand/ Virgin Australia	<a href="http://www.transport.govt.nz/air/internationalairservices/internationalaircarriagecompetition/anzandvirgin/">http://www.transport.govt.nz/air/internationalairservices/internationalaircarriagecompetition/anzandvirgin/</a>
<b>2014</b>	Qantas - Emirates Coordination Agreement	Qantas/ Emirates airlines	<a href="http://www.transport.govt.nz/air/internationalairservices/internationalaircarriagecompetition/qantasemiratescoordinationagreement/">http://www.transport.govt.nz/air/internationalairservices/internationalaircarriagecompetition/qantasemiratescoordinationagreement/</a>

## **The changing context of the Australia/Mexico relationship**

The visit of the Hon Julie Bishop, the Australian Foreign Minister, to Mexico in April 2014 highlighted the increasing interest of both Mexico and Australia in promoting and upgrading their bilateral relationship. Hon Julie Bishop declared:

“...There is enormous scope for Australia to cooperate more with



Mexico. Mexico is our largest commercial partner in Latin America and we want this component of our relationship to grow. We are already working together in a wide range of sectors, however the impressive reform program in Mexico will trigger new opportunities for collaboration and investment between our countries”.

The signing of the TPP trade agreement in Canberra on the 6<sup>th</sup> of October 2015, gave the possibility of direct flights a new impetus. As we discussed previously the

Colombian and Peruvian markets would be better served by a Cancun-Auckland-Melbourne flight than by a Santiago-Auckland-Melbourne flight. In the worst of the scenarios, the new route would provide another competitive option for those countries. In the case of Chile, another signatory of the TPP agreement, the current route Santiago-Auckland-Melbourne is unbeatable in financial terms and will remain so for the time to come.

The growing trade and investment relationship and the expanding Australian corporate presence in Mexico are two additional indicators that this relationship is maturing and in some areas is experiencing a leap forward. If some of the major investments planned by the likes of BHP Billiton, Worley Parsons, Macquarie, Rio Tinto and others go ahead, there would be a significant increase in business traffic. Catalysed by the Trans-Pacific Partnership Agreement (TPP).

The increasing number of students who choose Australia as a country to carry out their academic dreams is another important factor that has to be considered in relation to the issue of direct flights. The number of students would be catapulted by the decision of the Mexican Government to provide 60,000 additional scholarships to study either in Mexico and/or abroad. Australian Education International (AEI)

statistics show already substantial increases in enrolments from Mexico, 20% in enrolments and 27% in commencements from 2013 to 2014:



Nationality	Mexico							
	Data	Year						
	Sum of DATA YTD Enrolments				Sum of DATA YTD Commencements			
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total	14,774	14,392	15,673	18,860	8,594	8,152	9,085	11,528
<b>% Increase</b>			<b>109%</b>	<b>120%</b>			<b>111%</b>	<b>127%</b>

Source: Australia Education International (<https://internationaleducation.gov.au/Pages/default.aspx>)

Further, on both the Australian and the Mexican sides the potential to expand their respective tourism industries is enormous. International tourism along what is known in Mexico as the “Riviera Maya” (Quintana Roo and Yucatan) has a great appeal for the international market and it is doubling every two and a half years<sup>32</sup>. The Mexican Zocalo occupies the 21<sup>st</sup> place between the 50 most visited places in the World (the Sydney Opera House occupies the 31<sup>st</sup> place)<sup>33</sup>. All these factors will contribute to increasing the number of airline travellers between both countries over and beyond the historical trends discussed in this submission.

## Conclusions and recommendations

In 1974, Qantas (using Boeing 707 equipment) flew to Mexico City in what was known as the “Fiesta Route” (Sydney – Nadi – Papeete – Acapulco – Mexico City- Bahamas-Bermuda-London). Although it was a visionary decision at the time it ceased to be financially viable once Qantas began to use the 747 as the core of its intercontinental route structure. Nevertheless, based on this analysis we conclude that the possibility of direct flights from Mexico to Australia has moved from being a “crazy dream to revive the Fiesta Route” to being a viable and sustainable reality within three years. The “baseline” economic, technical and legal requirements are met by the current conditions. These conditions will even be better and stronger in 2018. The Australia/Mexico is experiencing both a qualitative and quantitative

<sup>32</sup> <http://www.datatur.sectur.gob.mx/Contenedor%20de%20Noticias/CANCUN%20Y%20LA%20RIVIERA%20MAYA%20LOS%20DESTINOS%20MÁS%20VISITADOS%20POR%20EL%20TURISMO%20INTERNACIONAL.aspx>

<sup>33</sup> <http://www.dailymail.co.uk/travel/article-2598724/The-50-visited-tourist-attractions-world-revealed.html>



transformation. We know that, at least one airline operating in Australia is interested in Latin America. A member of the COALAR Council is an executive member of Virgin Australia.

There are a number of technical and legal challenges that still have to be overcome and a more detailed final analysis has to be carried out by the experts in this subject, but we can see the plane at the end of the runway!

We strongly recommend the following:

- 1 The formation of a taskforce, as soon as possible, formed by Australian and Mexican authorities, by the representatives of the interested airlines, by representatives of the respective Tourism organizations in both countries and by ANZMEX to analyse with more rigor this business initiative, and to change and/or supplement the assumptions and information presented in this Submission”.
- 2 To report to the Senate the findings of this Taskforce by the 14<sup>th</sup> of March 2016, a very symbolic date as it marks 50 years since Australia and Mexico re-established their diplomatic relations after the Second World War.