



12 April 2017

Senator David Leyonhjelm
Chair
Senate Select Committee on Red Tape
Parliament House
Canberra ACT 2600

Via email: senator.leyonhjelm@aph.gov.au; redtape.sen@aph.gov.au

Dear ~~Senator~~, *David*,

RE: THE EFFECT OF RED TAPE ON CABOTAGE

The Qantas Group (the Group) and its airlines Qantas and Jetstar, appreciates the opportunity to comment on the Select Committee on Red Tape's inquiry into the effect of red tape. Given the specific reference to aviation cabotage the Group is responding to this matter and this matter only.

The Group contributed \$11 billion to the Australian economy in financial year 2016 and employed over 30,000 people globally.¹ Accounting for close to 62 per cent of Australia's domestic aviation capacity and just over 26 per cent of Australia's international aviation capacity, the Group represents the national interest through its investment in Australian aviation, trade and industry, tourism and our regions.²

As the national carrier the Group is strongly opposed to any change to the introduction of aviation cabotage given the significant consequences for Australian aviation and Australia's economic interests, employment and investment.

Whilst we acknowledge and support the Government's long-term policy objectives to strengthen Australian aviation and tourism, the concept of aviation cabotage in Australia would undermine the framework of Australia's regional and domestic aviation sectors, delivering perverse policy and economic outcomes.

Cabotage, in all its forms, is binary. Even a 'lite' version begins the process of unwinding the structure of our domestic aviation industry and presents substantial commercial, economic, employment and operational risks. Cabotage goes well beyond progressive liberalisation policy settings and will destabilise Australia's aviation market.

The consequences of aviation cabotage are stark. A cabotage policy which has almost no equivalent international precedent – would:

- Allow international carriers to cherry pick key trunk routes from major gateways, damaging the route and network economics of Australia's competitive aviation sector;
- Pose a significant risk to investment and jobs;
- Forfeit Australia's strategic assets; and
- Lead to Australia outsourcing regulatory and safety oversight of its domestic market to foreign governments.

In encouraging the committee and more broadly the Government to continue a rational and structured policy approach, we outline these impacts and risks of aviation cabotage and support stable and predictable policies which provide certainty to long-term investment and planning.

¹ DAE Report – Qantas Group Economic Contribution 2016

² Source: CAPA – Centre for Aviation and OAG



Market Dynamics, Investment and Jobs

The Group recognises the Government's current policy settings to strengthen Australian aviation are serving Australia's interests well.

Australia's travelling public has never been better served, with more passenger and freight capacity, frequency and destinations than ever before. The real prices of regional and domestic airfares are at decade lows, confirmed by the Government's own data.

In keeping with the Government's stable policy settings, we see no evidence that current market dynamics are a constraint on either price or capacity. Australia's current domestic aviation market has seen an increase in demand for domestic air travel growing from 33 million passengers to 57 million passengers since 2003. In real terms, discount domestic economy airfares are 41 per cent lower than they were in 2003.³

Globally, international airfares are at an all-time low, with the International Air Transport Association estimating the price of travel has dropped by 10 per cent over the past 12 months.⁴

Furthermore, with one of the most liberal and competitive aviation markets globally, Australia encourages and welcomes investment from foreign carriers and investors, most recently from Asia and the Middle East. The policy settings of capacity in line with demand have seen growth at major gateways (Sydney, Melbourne, Brisbane and Perth) whilst allowing unrestricted access for all international carriers to operate to non-Gateway points such as Cairns, Darwin, Townsville, Adelaide, Broome and Hobart.

A cabotage policy would have serious domestic and international impacts, materially erode the asset profiles of Australia's airlines, negatively impact future investments and be viewed as a risk by current and future investors.

Domestic and International Impacts

Whilst the current policy settings are serving Australia's interests well, any radical shift in the fundamental policy framework would not only have far reaching impacts on the commercial and operational viability of Australia's aviation market, but also impact thousands of Australian jobs.

Australia's major airlines employ approximately 50,000 people and fly more than 74 million passengers each year, with more passenger and freight capacity, frequency and destinations than ever before.

With no evidence to suggest that capacity and connectivity are constrained, the introduction of cabotage would undermine these jobs as was highlighted in the Government's response to the Harper Competition Policy review in 2015, whereby cabotage was proposed for the Northern Australia market. Had cabotage been adopted, the Group would have been forced to rationalise domestic capacity and mitigate its follow on effects by exploring offshore substitutes.

Additionally, there is ongoing fragility for smaller regional carriers, many of whom would be immediately exposed by a shift in policy.

From an international perspective the granting of cabotage is largely unprecedented globally, with almost no other developed economy – with the exception of geographically comprehensive air services agreements such as those in the European Union – allowing aviation cabotage.

Australia's liberal aviation market currently extends the opportunity for foreign airlines and entities to hold 100 per cent of the equity in an Australian domestic airline. Moreover, under Australia's current air services agreements foreign airlines can also code share on Australian carriers' domestic networks.

A cabotage policy would be highly detrimental to these opportunities as current policy conditions ensure that airlines choosing to enter the Australian market will do so under the same terms and conditions that apply to domestic carriers.

In effect, cabotage would allow for international carriers to exploit Australia's aviation market by cherry picking key trunk routes from major gateways and operating directly from their home country.

³ BITRE Domestic Airfare Indexes data 2016

⁴ IATA global passenger traffic results, February 2017

Australia's Strategic Assets

The introduction of cabotage to the Australian market would be inconsistent with the Government's policy framework to strengthen Australian aviation, threatening Australia's strategic assets.

Cabotage would undermine and disadvantage Australia's position in future air services negotiations. These rights, the most valuable in aviation, would be gifted to over 100 countries without seeking reciprocal opportunities for Australian airlines.

Worse still, we would lose a seat at the negotiating table for any future Association of South East Asian Nations common aviation zone given Australia would have given away a large bargaining chip for this unprecedented trade opportunity.

Put simply, this would be a disastrous trade negotiation strategy and deny Australian airlines a clear measure of certainty around which they can base long-term investment planning.

Regulatory and Safety Risk

In what would be an unprecedented move, the introduction of cabotage would lead to Australia outsourcing the regulatory oversight of its domestic market to foreign governments, leaving the Civil Aviation Safety Authority (CASA) to rely on supervision of foreign governments. Australian airlines which are regulated by CASA would compete with airlines operating in lower cost safety regimes with different standards.

Under a cabotage policy foreign airlines would operate under a Foreign Air Operator Certificate with different standards to CASA regulated domestic carriers. As a result, Australian airlines would have to compete with airlines operating in lower cost safety regimes.

This would not only lead to a reversal in currently effective safety arrangements applicable to domestic aviation, but would also mean the travelling public could not be assured the same safety mechanisms would be employed by foreign airlines as they would be impossible to regulate.

Summary and Recommendations

Given Australia's geographic dispersal, integrated regional, domestic and international networks are crucial to the seamless movement of people and freight and Australia's international competitiveness.

The employment and investment consequences of cabotage pose significant risks to the economy and Australia's passenger and freight networks. Australian airlines provide tens of thousands of jobs and substantial indirect economic flow-on effects for the wider economy. Few if any efficiency gains would derive from such a policy proposal.

Given the evidence outlined above, the Group recommends the Red Tape Committee reject any proposals for aviation cabotage.

The Group would like to thank the committee for their consideration of this submission.

Yours sincerely,

Andrew Parker
Group Executive, Government, Industry and International Affairs