



Submission No 17

Inquiry into Australia's relationship with India as an emerging world power

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Dr Margot Kerley
Review Secretary
Joint Standing Committee on
Foreign Affairs, Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Dr Kerley

**Inquiry into Australia's relationship with India
as an emerging world power**

I refer to your letter of 3 April 2006 to Qantas' Chief Executive Officer,
Mr Geoff Dixon, inviting comments in relation to the above Inquiry.

In view of the Committee's timeframe for consideration of the issues, we offer the
attached brief overview of Qantas' activities in the India market.

Qantas supports the further development of bilateral relations between Australia
and India, and expect this would have a positive impact on the aviation sector,
particularly through tourism. To this end, in March 2006, Qantas' Chief Financial
Officer, Peter Gregg, participated in the Prime Minister's Business delegation to
India.

We would be pleased to provide any further information if it would assist the
Committee.

Yours sincerely

Jane McKern

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QANTAS AND INDIA

Air services arrangements

Air services arrangements between Australia and India have been in place since 1947, underpinning the operation of services by Australian carriers to and through India to the UK and Europe.

Air services talks held in September 2004 achieved substantially liberalised arrangements. This included an immediate increase in capacity for passenger services that can be operated from 2,100 to 4,500 seats per week (rising to 5,500 and 6,500 seats per week in October 2005 and 2006 respectively), staged access for Australian carriers to Chennai, Bangalore and Hyderabad (in addition to the existing points of New Delhi, Mumbai and Kolkata), unlimited code share on international routes between carriers of Australia and India, a third country code sharing facility and unrestricted opportunities for freighter operations.

A commitment to hold a further round of consultations by no later than October 2006 was also made to ensure that Australia is in a position to tap into the potential benefits of a more liberal Indian aviation policy.

In February 2006, the air services arrangements were further amended to permit code sharing between Indian and Australian carriers on domestic services.

Operations

Qantas first operated to Kolkata in 1947 and beyond to the Middle East and the UK/ Europe. It later shifted its port of call in India to New Delhi, and subsequently Mumbai.

The development of aircraft technology that eliminated the need for two stops en route to the UK/Europe from Australia, together with an economic downturn in India, saw Qantas withdraw services from the market in 1990. Qantas resumed operations in 1996, but was forced to retreat in 2002, having incurred substantial financial losses.

Qantas re-entered the market in September 2004 with three non-stop B747-300 services per week between Sydney and Mumbai (1,350 seats). Although Delhi is a slightly larger market for Australian travel, Mumbai was chosen as it is a stronger market for Qantas. Smog and electrical storms also make Delhi a difficult operational proposition for a significant period of the year, with diversions a frequent occurrence.

However, this level of non-stop capacity proved too great and in January 2006 the B747-300 operations were substituted with three weekly A330-300 services (891 seats). The services operate from Sydney to Mumbai via Darwin in the northbound direction, and non-stop on the southbound leg. Extensions to Melbourne are offered on selected services.

Qantas also operates a weekly freighter service Frankfurt-Mumbai-Bangkok-Sydney using an aircraft wet leased from Atlas Air.

Qantas employs 19 staff in India and also has representation through 51 General Sales Agents throughout India.

Commercial Performance

India continues to prove a difficult market in which to sustain operations in the face of strong competition from carriers operating from mid-point hubs such as Singapore Airlines, Malaysia Airlines and Cathay Pacific, which serve multiple gateways in India, and are able to offer connections with their Australian services at their hubs.

As a result, significant losses have been recorded in the 20 months of operations on the India route to date. The performance of the route, however, has been improving in recent months due to solid traffic growth. Financial performance on the route is expected to continue improving following the introduction of the A330-300 aircraft. To combat the network reach of hub carriers in the market, Qantas will also continue to work closely with our domestic interline partners to carry traffic from points other than Mumbai.

Qantas sees an alliance with an Indian airline as an important element in building a strong and viable presence in this rapidly growing market, and has been in discussions with Jet Airways for some time.

Qantas' investment in Singapore-based Jetstar Asia provides a potential opportunity for the Qantas Group to grow its presence in India. Jetstar Asia's entry to the India market has proven difficult and it has recently withdrawn operations to Kolkata. However, Jetstar Asia is continuing to operate five weekly services between Singapore and Bangalore.

Passenger flows

The India market is Australia's 15th largest in terms of origin-destination traffic flows. In 2005, 190,000 passengers travelled between the two countries, equivalent to 3,300 passengers each way each week. This represents growth of 23 percent on 2004 levels, which in turn were up 30 percent on 2003 traffic. The traffic mix is 53 percent Australian residents and 47 percent visitors.

The majority of traffic travels for leisure purposes, that is holidays (28 percent) or visiting friends and relatives (27 percent) – the latter category assisted by the 150,000 people of Indian ethnicity living in Australia. Thirty-one percent of passengers list business as their primary purpose of travel, with the remaining 14 percent comprising various categories such as employment and study (there are currently 20,000 Indian students in Australia).

Competition between destinations for Indian tourists is increasing, with European and Middle Eastern carriers expanding their operations to India substantially in recent years.

In September 2005, Qantas participated in a Ministerial Delegation to India with the Hon. Fran Bailey MP, Minister for Small Business and Tourism. During the visit, the Minister announced that Tourism Australia would look to open a dedicated office in India in lieu of the current trade representative operation.

Qantas works closely with Tourism Australia in the India market and each invested significant funds in cooperative advertising in 2005-06, and this will continue in 2006-07.