

DEPARTMENT OF TRANSPORT AND REGIONAL
SERVICES

SUBMISSION FOR THE

TRADE SUB-COMMITTEE OF THE JOINT STANDING
COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND
TRADE

INQUIRY INTO ENTERPRISING AUSTRALIA –
PLANNING, PREPARING AND PROFITING FROM TRADE
AND INVESTMENT

FEBRUARY 2001

1. Introduction

On 29 November 2000 the Department of Transport and Regional Services (DoTRS) was invited to provide input into the Joint Standing Committee on Foreign Affairs, Defence and Trade's Trade Subcommittee inquiry into *Enterprising Australia – planning, preparing and profiting from trade and investment*. DoTRS provides the following submission to the Sub-Committee for information and consideration in preparing its report.

2. Aviation

In June 1999, the Government announced a new international air services policy as part of on-going micro-economic reform of the transport sector. Details of the Government's objectives for this policy and the strategies for reaching them are set out in the Policy Statement on International Air Services issued in June 2000 by the Hon John Anderson MP, Deputy Prime Minister and Minister for Transport and Regional Services. Copies of this publication are enclosed for the information of sub-committee members.

Australia and the international airlines that serve our market are becoming increasingly integrated into a global market as barriers to trade are reduced worldwide. The Government's aviation policies are directed at maximising the economic and efficiency benefits achievable through improved access to world markets and increased competition in the domestic market.

In the domestic aviation sector, the Government has removed impediments to foreign investment by amending the Foreign Investment Review Board sectoral guidelines to allow foreign persons (including foreign airlines) to acquire up to 100 percent of the equity of an Australian domestic airline, unless this is contrary to the national interest.

Following this change, Virgin Blue and Impulse Airlines became new domestic trunk route operators in the second half of 2000. The entry of the new domestic carriers has significantly stimulated growth in the domestic aviation market. A comparison of the growth figures for domestic passengers carried on trunk routes over the July to November periods in recent years reveals a market that recorded growth of 1.8 percent in 1996, declined by 0.2 percent in 1997 and stayed flat in 1998. In the five month period immediately following the announcement of the new policy in June 1999 the numbers of domestic passengers carried increased by 4.9 percent over the same period in 1998. The higher level of growth continued in the July to November 2000 period with numbers of passengers carried increasing by 3.8 percent over the previous period. Some of this latter growth can be attributed to the Sydney Olympics.

In May 2000, the Government amended the Air Navigation Act, 1920 to put statutory limits on ownership requirements of Australian international airlines at the limit of what our bilateral trading partners will accept (49% foreign ownership with no distinction between foreign airlines and other foreign investors). Air New Zealand recently took a 49 percent share in Ansett International Ltd.

These provisions do not apply to Qantas. The ownership and control provisions for Qantas are set in a different context to other Australian international airlines, and are dealt with separately under the provisions of the Qantas Sale Act 1992. At the time Qantas was fully privatised in 1995, undertakings were provided to the Australian people that the Qantas Sale Act would ensure that Qantas would remain Australian. The Government has indicated that it will not change the ownership and control rules for Qantas without separate and further public consideration.

From 1992 successive Australian Governments pursued a policy of negotiating international airline capacity ahead of demand. This policy made possible a rapid growth in inbound tourism and export opportunities for Australian industry. Between the years ending June 1992 and June 2000 the number of visitors to Australia increased from 2,573,000 to 4,760,000, a total increase of 85 percent and an average increase per annum of 8 percent. Greater competition between airlines over this period also saw international airfares drop in many markets.

The continued liberalisation of bilateral air services agreements, whether through 'open skies' agreements or other liberal arrangements is one of the key objectives of the Government's International Air Services policy. As more liberal arrangements are negotiated, there are increasing opportunities for the tourism sector to develop and offer new products and to renew existing ones.

In November 2000, Australia's first 'open skies' arrangements came into effect following the initialling of a treaty and signature of a Memorandum, of Understanding by the Transport Ministers of Australia and New Zealand. Further 'open skies' negotiations will be sequenced to maximise identifiable benefits for Australia.

'Open skies' agreements typically remove restrictions on routes, frequencies and aircraft types for passenger and cargo flights to, from, between and beyond Australia and our trading partners; code-sharing on airlines of choice, multiple designation of airlines and prices.

Where 'open skies' arrangements are either not possible or not in the national interest, all bilateral partners are now offered a liberal package of arrangements designed to encourage the development of more attractive airline and tourism products. This package allows foreign airlines, within negotiated capacity, unrestricted rights to code share on Australian domestic airlines and to carry their own stopover traffic to all points in Australia. It also provides for unrestricted access by foreign carriers to Australia's regional international airports other than Sydney, Melbourne, Brisbane and Perth for both passenger and freight services.

This will allow international airlines to take commercially based decisions on serving Australia's regional gateways, which include Coolangatta, Cairns, Townsville, Darwin, Broome, Adelaide and Hobart. This will allow those gateways, and the communities

that benefit from them, to attract international air services without the need to consider any bilateral restrictions on local market access.

However, the absence of restrictions on supply of international air services, particularly to regional international airports, is no guarantee that airlines will commence services. The airlines must be convinced that there is sufficient commercial demand for such services to be viable. This will require a committed effort on the part of airport management authorities, participants in the tourism industry and State governments to be proactive in developing attractive products and marketing them effectively overseas to increase demand for air services.

To date, regional packages have been accepted by Dubai, the United Arab Emirates, Fiji, Brunei and Sri Lanka and there are equivalent arrangements with New Zealand.

In June 1996, the Government announced that it would encourage the development of air freight as a market in its own right, rather than have it treated as an adjunct to passenger services. Since that announcement, the Government has negotiated arrangements where dedicated freight capacity is not constrained between Australia and 22 of our bilateral partners.

Open access for dedicated freight services to Australia's international airports is now offered to all of Australia's bilateral partners.

In June 1996 the Government took a major step towards a more liberalised and flexible air charter market in Australia with the release of updated charter guidelines, which sought to develop the charter market as a market in its own right, in direct competition with scheduled services. Charter approvals are linked to broad public interest criteria that focus on consumer needs, the promotion of trade and tourism and benefits to regional Australia. There is also a wide range of charter flight categories that receive automatic approval.

The importance of charters in the market has decreased in recent years as a result of strong competition from scheduled airlines on long haul routes.

3. Regional Services, Development and Local Government

The Regional Australia Summit, held in October 1999, developed a number of strategies to address various challenges facing regional Australia. High on the agenda was the issue of infrastructure in regional Australia. The facilitation of business investment and entrepreneurship were also part of the numerous other themes discussed at the Summit.

In relation to infrastructure, the Summit concluded that a national coordination strategy was essential and that the delivery of projects was the responsibility of all levels of government and the private sector. The Summit also called for action to achieve a more efficient and effective market for capital in regional Australia and urged the removal of impediments to entrepreneurship.

The Foundation for Rural and Regional Renewal was established to encourage innovative collaboration between business, community and government in. It provides a mechanism for the private sector to work with communities in regional Australia through grants for community capacity building, project facilitation, community and economic development initiatives. The Federal Government has committed \$14.5 million to the Foundation.

In March 2000, the Deputy Prime Minister and Minister for Transport and Regional Services, the Hon John Anderson, convened a meeting of State and Territory Ministers responsible for regional development and the Australian Local Government Association (ALGA) to discuss coordination of government activities in regional Australia.

The Ministers agreed to establish a clear framework for cooperation between all levels of government on regional development issues and established a taskforce of senior officials to work through identified opportunities. The taskforce reported to the meeting of Regional Development Ministers and the ALGA in November 2000 with proposals for improved cooperation between the three levels of government in Australia which were endorsed at the meeting.

The Ministers also agreed that substantial funds need to be applied to improving and developing infrastructure in regional Australia and that infrastructure is a joint responsibility of the Commonwealth, States and Territories and local government, in conjunction with the private sector. In addition, it was agreed that all governments are responsible for creating the appropriate regulatory, taxation and business support environment to facilitate the development of infrastructure.

It is in this context that the taskforce is currently considering the scope for cooperative approaches to a number of regional development issues, including infrastructure, zone rebates, business investment, retention of professionals and housing. The taskforce is investigating issues, priorities and approaches that could facilitate better and well-targeted cooperation in these areas. It is also examining practical measures that could be taken to facilitate regional development.

The taskforce will report to the Ministers and the ALGA on progress on these issues.

The Northern Australia Forum (NAF), held in Katherine on 17-20 October 2000, was convened to identify prospects for sustainable growth in northern Australia into the 21st century.

The main issues to emerge from the consultations and the Forum included: infrastructure (roads, power, airports, water); telecommunications (access, cost and training); access to finance and additional tax incentives; skills development and community leadership; native title and other land access issues; developing new industries (eg. expanding eco-tourism and encouraging more involvement of indigenous people in tourism, and further development of niche markets for agricultural produce);

sustainable development (environmental, social and economic); health and education; unemployment and labour market issues; and defence.

Developing a vision for northern Australia and working towards a strategic plan to put the vision into practice were key themes to emerge from the Forum workshops and the colloques.

To this end an initiative called 'Collaboration Across the North' has been developed and is jointly resourced by the Federal, WA, NT and Qld Governments. The initiative will investigate key business development opportunities; identify and promote trade links to Asia as well as promoting northern Australia to the rest of Australia and Asia.

The 'Collaboration Across the North' initiative will support the CEDA (Committee for Economic Development Australia) Seminars initiative which also arose from the NAF. The CEDA seminar series will be commencing in early 2001 and will be held in Sydney, Melbourne, Brisbane, Darwin and Perth to promote opportunities for development and investment in northern Australia. The seminar series will provide an avenue to reach a wide private sector audience and a range of State and Territory government officials.

4. Bureau of Transport Economics

The Bureau of Transport Economics is examining industry regulatory issues raised at the National Infrastructure Round Table (held in Melbourne on 21 July 2000 at the initiative of the Federal Government and the Australian Council for Infrastructure Development), and will be reporting its findings to the Minister of Transport and Regional Services.

5. Conclusion

The Department has undertaken a number of initiatives in the aviation sector: maximisation of economic efficiency, micro-economic reform, liberalisation and planning ahead of demand facilitating market increases in other sectors such as tourism, increase of statutory limits to ownership to the limit of what bilateral trading partners will accept, and the encouragement of existing markets being viewed as markets in their own right. These measures have and will continue to increase Australia's trade and investment.

The Department has also been active in a number of fora to further Australian trade and investment in Regional Australia. For example: the Regional Australia Summit; the Foundation for Rural and Regional Renewal, the meeting between State and Territory Ministers for regional development and the Australian Local Government Association, the Northern Australia Forum, the Collaboration Across the North initiative, and the Committee for Economic Development Australia Seminars. These fora use collaboration between business, community and government and coordination of government activities in regional Australia to further a wide range of regional issues. These include: infrastructure and the appropriate regulatory, taxation and business support environment to facilitate its development; sustainable growth in Northern



COMMONWEALTH DEPARTMENT OF
**TRANSPORT AND
REGIONAL SERVICES**

Australia; entrepreneurship; telecommunications; access to finance; additional tax incentives; the identification and promotion of trade links to Asia; skills development and community leadership; native title and other land access issues; developing new industries; sustainable development; health and education; unemployment and labour market issues; and defence.