



Submission No:.....21.....
Date Received: 2-9-08.....
Secretary:

The Secretary
Foreign Affairs Sub-Committee
Joint Standing Committee on
Foreign Affairs, Defence and Trade
Parliament House
CANBERRA ACT 2600

22 August 2008

Dear Sir,

Thank you for your letter of 17 July 2008 advising me of the Foreign Affairs Sub-Committee's intention to conduct an inquiry into Australia's relationship with the Association of Southeast Asian Nations (ASEAN).

Singapore Airlines welcomes the opportunity to participate in this process and has prepared a contribution to the inquiry. Please find enclosed a copy of our submission.

Should you or the Committee require any additional information please do not hesitate to contact me on 02 9350 0211 or by mail at Locked Bag A3008, Sydney South NSW 1235.

Yours sincerely

Subhas Menon
Regional Vice President
South West Pacific



1 Executive Summary

Singapore Airlines has an extensive commitment to Australia and is currently the largest international airline to operate in the country – second only to Qantas. Singapore Airlines is committed to the continued growth and prosperity of the \$46 billion Australian transport industry and the \$85 billion Australian tourism industry.

As South East Asia's largest airline and one of the world's leading airlines, with a substantial presence in Australia, Singapore Airlines is well placed to comment on Australia's relationship with the Association of Southeast Asian Nations (ASEAN) and welcomes the opportunity to contribute to the Joint Standing Committee on Foreign Affairs, Defence and Trade's inquiry.

2. Introduction

Singapore Airlines is a full-service network airline with premium product offerings that strives to remain competitive through constant product innovation and effective cost-management. Singapore Airlines' route network, including Singapore Airlines Cargo and subsidiary SilkAir destinations, covers 103 destinations in 41 countries. The network throughout South East Asia is extensive.

Singapore Airlines has served the Australian market continuously for over 40 years, first commencing services to Sydney and Perth in 1967, and is deeply committed to the Australian market, our Australian consumers and the Australian tourism industry. The Company now employs around 300 Australians and transported over 2,500,000 million passengers to and from Australia last year. In addition to direct employment, Singapore Airlines outsources a number of services to Australian companies and buys substantial Australian produce and products to support its international operations, resulting in the creation of long-term employment across a range of fields. Furthermore, the Airline's pilots – as well as those of its sister companies, SilkAir¹ and Singapore Airlines Cargo – are all trained in Australia.

Operating 92 flights each week to and from five Australian gateways to Singapore, Singapore Airlines is the largest overseas airline serving the Australian market. The Airline has invested hundreds of millions of dollars in Australia to support our operations. Serving Perth, Adelaide, Sydney, Melbourne and Brisbane, the Airline's commitment to the growth of Australian tourism is significant, with the airline accounting for almost one in every eight overseas arrivals.

Singapore Airlines prides itself on operating one of the youngest, most modern fleets of any international airline, flying customers to their destinations not only faster and more conveniently but also in greater comfort. Apart from being more fuel-efficient and

¹ SilkAir is a regional airline based in Singapore, flying a network of points around Asia using a fleet of A319 and A320 aircraft. SilkAir operates weekly charter flights between Singapore and Christmas Island.

capable of flying further non-stop, younger aircraft require less maintenance and are more efficient and reliable.

The airline is a company, listed on the Singapore Exchange, and subject to the laws and listing rules that apply to all listed companies in Singapore. Notably, the Government of Singapore does not protect Singapore Airlines from competition. The Singapore Government practices a very liberal aviation policy; one in which airlines seeking to fly to and from Singapore are welcomed. The Company pays tax in accordance with the relevant Singapore and overseas laws, pays landing and airport charges levied by the Airport, and the many other regulatory charges imposed on airlines and local authorities.

Singapore Airlines is a long-term player in the Australian market with a keen interest in developing a strong relationship with the new Australian Government

3. International Air Services

International aviation has traditionally been one of the most protected industries: an irony, given it is the industry that most facilitates globalisation in trade of goods and services, and exchange of people across borders. This is largely because the system of treaties that govern international aviation - bilateral air services arrangements - are often highly restrictive and become even more complex when airlines seek to operate on to a third country that is not party to the treaty. As a consequence, many elements of international aviation have not yet been genuinely exposed to competition.

While Australia appears to be taking steps towards liberalisation, this restrictive legacy continues in Australia today, particularly on the route between Australia and the United States of America (the "Trans-Pacific route"). The fact is, while Australia once led the liberalisation of air service agreements, recent developments in the USA and European Union have left Australia's progressive, but slow, approach behind. ASEAN has recognized the value of liberalised air routes and is currently developing a regional Open Skies Agreement.

ASEAN, and Singapore in particular, has been a model for aviation liberalisation with other super powers. The United States' push for open skies agreements in Asia in the 1990's started with Singapore and other ASEAN countries and trade and people flows between the regions has flourished as a consequence. Similarly, ASEAN countries, led by Singapore, thereafter concluded liberal agreements with the European Union further boosting trade and people flows between the Continent and ASEAN.

More recently, the United Kingdom (UK) concluded an open skies agreement with Singapore as an expression of the UK Government's hope to take a giant step to liberalise aviation and improve trade and people flows. By this measure Australia is lagging in any visible commitment to haul aviation into the mainstream of trade liberalisation that other sectors have embraced.

Singapore Airlines believes it is in the best interests of the consumer and the \$85 billion Australian tourism industry to further liberalise Australia's international air services agreements. It has been demonstrated that greater competition on routes has resulted in new service options, increased inbound tourism and greater variety of fares and loyalty programs². The 2005 review of international aviation policy by the former Government correctly found that the policy of liberalising Australia's air services arrangements and negotiating capacity ahead of demand is right and in the national interest.

Liberalisation is essential to provide not only competition, but also the necessary access to global trade and tourism markets, so vital for an island nation like Australia. Unfortunately, Australia's regulatory approach maintains protection for Australian carriers, which is counter to its position supporting open and free trade elsewhere. As a consequence, today there is simply not enough competition on the Trans-Pacific route with only Qantas and United Airlines servicing the route directly from Australia and fares are very high and uncompetitive as a result³.

Singapore Airlines appreciates that the Federal Government might make decisions to liberalise air services agreements after consideration of 'the national interest'. However, the Airline believes that past Governments have inadequately balanced competing interests and that the desire to protect the Australian-based aviation industry has come at a high price, namely the loss of opportunities for the Australian tourism industry and Australian consumer. The concept of the national interest has often become confused with the considerably narrower national carriers' interests. The reality is that what is in the national interest may not be always in the national carriers' interests, despite their assertions to the contrary.

Past Governments have liberalised air services agreements for routes that are unlikely to ever be flown commercially, putting into question how genuine their efforts to liberalise really are. Efforts to liberalise should be focused on routes where there will be immediate and tangible benefits to consumers and the tourism industry, especially where capacity constraints already exist and where the lack of competition has led to unacceptably high fares and few product choices.

Singapore Airlines believes Australians would be best served with more competition on the Trans-Pacific route. It does not serve Australia's national interest to protect Qantas from competition; this just comes at a direct cost to consumers. Continued protection is serving only the interests of Qantas, not Australia's national interest, which depends on tourism growth. We are confident that while it will take time, the arguments for competition on the Trans-Pacific route will appeal to Australian's sense of fair play.

Singapore Airlines believes that competition should be given greater weight in considering policy decisions around air service agreements. The importance of diversifying access to the Australian aviation market has strong consumer benefits, which should be an important microeconomic reform policy goal for any government, building

² See Econtech, "ANALYSIS OF THE TRANS-PACIFIC FLIGHT ROUTE", Canberra, December 2005

³ JP Morgan, *Qantas Airways Ltd: Trans-Pacific Route – Quantifying the Potential Risk*, 7 February 2005

on the significant reforms of other areas of the Australian economy since the 1980s. Singapore Airlines believes competition principles should be applied when Government is developing the national position on negotiating air service agreements.

4. Singapore Australia Free Trade Agreement (SAFTA)

As outlined earlier, ASEAN nations are supportive of open skies and the competitive benefits it brings. ASEAN and Singapore in particular, have arguably the most competition and consumer friendly airlines and aviation sectors in the world. Singapore, for example, has not only committed to the development of an ASEAN Open Skies Agreement, but has also signed the 2001 Multilateral Agreement on the Liberalisation of International Air Transportation (MALIAT). This has led to a vibrant aviation industry where as many as four local airlines and some of the most lucrative bilateral routes such as Singapore – Bangkok or Singapore - Hong Kong are well served by third country airlines.

The signing of the Singapore Australia Free Trade Agreement (SAFTA) in 2003 confirmed the very close relationship between Australia and Singapore. Importantly, the Agreement foresaw the need to liberalise air services and as evidenced by the text [excerpt below] both countries committed to the development of an Open Skies Agreement.

SINGAPORE AND AUSTRALIAN FREE TRADE AGREEMENT, 2003
ARTICLE 22

Air Transport Services

4. Both Parties agree to review developments in the air transport sector at the first review of this Agreement under Article 3 (Review) of Chapter 17 (Final Provisions), or at any other time agreed between the Parties, with a view to including these developments in this Agreement.

5. While both Parties affirm their rights and obligations under the Agreement between the Government of the Commonwealth of Australia and the Government of the Republic of Singapore relating to Air Services, signed on 3 November 1967 and any subsequent amendments thereto, **both Parties agree to work towards an Open Skies Air Services Agreement and to review that work in accordance with the provisions of Article 22.4.**

It was entirely appropriate that the Agreement should include reference to the liberalisation of international air services, primarily because open skies are within both countries interests. Open skies have stimulated not only competition, but also innovation and stronger partnerships between countries across the globe. To sign a liberalising trade agreement, but not commit to the liberalisation of air services is an apparent contradiction.

The Singaporean Government has been extremely generous in facilitating the growth of Australian carriers to and beyond Singapore. It does so because it recognizes that liberalised air services provide benefits for aviation, but also tourism, business and individuals. In contrast, successive Australian Governments who claim to have strong

credentials as drivers of economic reform have rejected more liberal air services arrangements.

In 2003, it was agreed between Australia and Singapore that rights for Singapore-based airlines to fly the Trans-Pacific route — could be considered again when there existed greater stability in the global aviation environment⁴. In June 2005, the Australian and Singapore Governments again discussed access to the route. At that time, the decision to grant Singapore-based airlines access rights to the route was again delayed pending a review. The subsequent February 2006 decision by the Howard Government to preserve the route for Australian carriers represented a blow to greater economic integration with its regional neighbours, including Singapore.

Competing in a globalised economy should not mean consumers are disadvantaged because of the protectionist legacies of homegrown companies and a loose definition of 'national interest'. Essentially the decision to liberalise air services is one about competition and choice. The debate should not be solely about the interests of Qantas. Consumer benefits, and the capability to grow inbound tourism, must carry equal weight in any decision-making.

According to Econtech's report,

“More competition on the Australia – US route would lead to a reduction in airfares on the route and greater flexibility in flight schedules and choice in airlines for prospective passengers. These wider and improved choices are estimated to lead to an increase in the number of passengers travelling between the two countries of 4 to 8 per cent. This would be associated with a permanent gain in spending by US visitors in Australia of up to \$114 million annually, benefiting the Australian tourism industry. The wider and improved choices from greater competition would also benefit Australians wanting to travel to the US.”⁵

We would urge the Committee to recognise the benefits of competition and open skies and encourage the Australian Government to conclude open skies agreements with its ASEAN neighbours, including Singapore.

⁴ John Anderson, Media Transcript, Signing of Australia – Singapore Air Services Agreement, 23 September 2003.

⁵ Econtech, “ANALYSIS OF THE TRANS-PACIFIC FLIGHT ROUTE”, Canberra, December 2005 pg vii