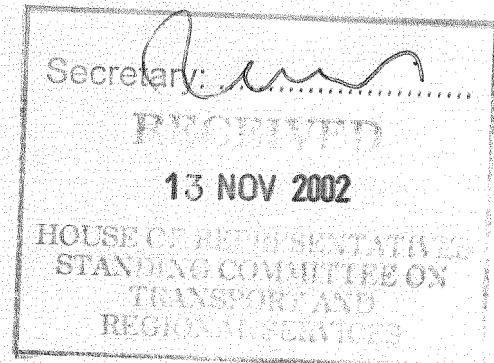




**The Hon Mark Vaile MP**  
**Minister for Trade**  
Deputy Leader of the National Party

- 4 NOV 2002

Mr Paul Neville MP  
Committee Chair  
House of Representatives  
Standing Committee on  
Transport and Regional Services  
Parliament House  
CANBERRA ACT 2600



Dear Mr Neville

Further to my letter of 9 July 2002, please find attached for your Committee's consideration, a submission to the Committee's inquiry into *Commercial Regional Aviation Services in Australia and Transport Links to Major Populated Islands* as prepared by the Foreign Affairs and Trade portfolio.

The submission outlines:

- the roles of the Department of Foreign Affairs and Trade and Austrade in promoting and supporting Australian trade,
- known market infrastructure issues with respect to regional aviation services;
- how export growth contributes to wealth creation and the development of regional Australia;
- the Government's goal of doubling the number of exporters by 2006 and the opportunities this creates for exporters, particularly regional exporters; and
- Austrade's role in building the capacity of regional exporters

Key issues addressed in the submission include:

- the availability of air services and cargo space in regional centers particularly in relation to the export of food and perishable products to markets in Asia;
- the problems associated with the need for multiple handling of products and limited availability of air freight capacity in remote centers;
- the disadvantages faced by smaller companies unable to commit significant volumes up-front and thereby suffering subsequent price vagaries associated with 'at-call' availability of air freight capacity;
- the significant cost disadvantages faced by growing regions of northern Queensland, the Northern Territory, Western Australia and Tasmania;
- the impact of seasonality on small to medium-sized exporters in horticulture sectors;
- the need for flexible air services to process urgent orders on a just-in-time basis to meet the demands of purchasers; and

- the competitive necessity to offer international customers timely delivery schedules as an important factor for companies deciding upon location of facilities.

The submission also provides data on regional aviation performance indicators which suggest that while passenger revenues have steadily increased since 1980-81, freight carriage has steadily declined and is presently under half of the 1980-81 level. The reasons for this decline are suggested as an area for possible investigation by the Committee, particularly with respect to the role the regional aviation sector plays in supporting Australia's export industries.

Should you have any queries relating to the submission, please contact Ms Elizabeth Siebert, Executive Officer, Trade Analysis Branch on telephone (02) 6261-3712.

I wish the Committee well in its Inquiry.

Yours sincerely



MARK VAILE

**Foreign Affairs and Trade Portfolio**

**Submission to the House of Representatives Standing Committee on  
Transport and Regional Services**

***Inquiry into Commercial Regional Aviation Services in Australia and  
Transport Links to Major Populated Islands***

**October 2002**

## **INTRODUCTION**

Some sectors of the Australian export community depend on commercial regional aviation services to access export markets. The Foreign Affairs and Trade portfolio has prepared a submission for the House of Representatives Standing Committee on Transport and Regional Services, *Inquiry into Commercial Regional Aviation Services in Australia and Transport Links to Major Populated Islands*. The submission seeks to highlight the importance of exporting to regional economic development and outlines:

- the role of the Government's key agencies responsible for promoting and supporting Australian trade, the Department of Foreign Affairs and Trade and Austrade;
- known market infrastructure issues with respect to aviation services;
- how export growth contributes to wealth creation and the development of regional Australia;
- the Government's goal of doubling the number of exporters by 2006 and the opportunities this creates for exporters, particularly regional exporters; and
- Austrade's role in building the capacity of regional exporters.

## **PORTFOLIO OVERVIEW**

The Foreign Affairs and Trade portfolio comprises the Department of Foreign Affairs and Trade (DFAT), Austrade and AusAID. This submission was prepared in consultation with DFAT and Austrade.

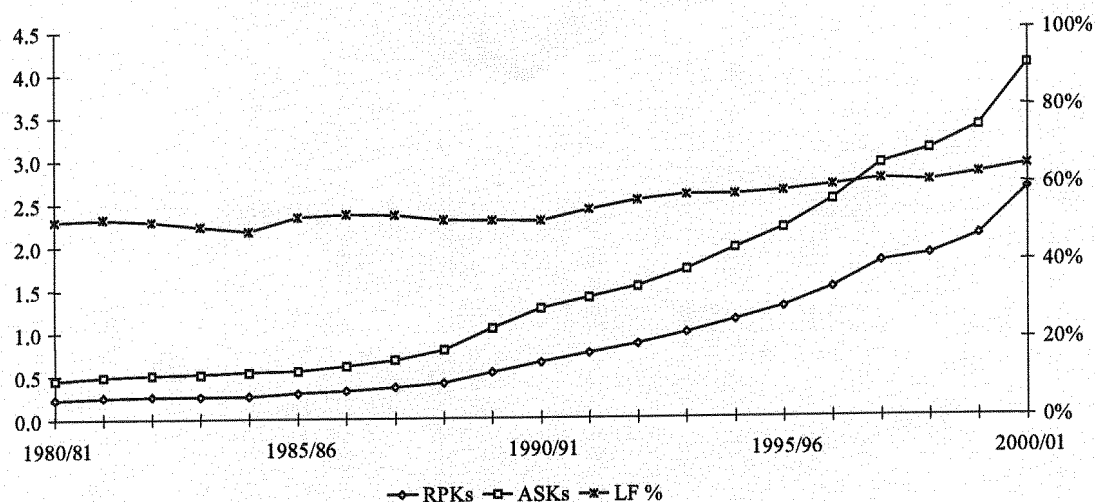
DFAT is committed to the protection and advancement of Australia's international interests through: contributing to international security, national economic and trade performance, and global cooperation; maintaining consular and passport services to Australian citizens; projecting a positive and accurate image of Australia internationally; and enhancing public understanding of Australia's foreign and trade policy.

The Australian Trade Commission (Austrade) is the federal government's principal trade and international business facilitation agency. Its mission is to contribute to community wealth by helping more Australians succeed in exporting and international business. Operating as a statutory authority within the Foreign Affairs and Trade portfolio and working closely with other Federal, State and Territory government agencies, Austrade helps Australian business reduce the time, cost and risk involved in entering, developing and expanding overseas markets. Austrade delivers these outcomes through a wide range of international market development and investment services to Australian companies, as well as to international buyers and investors. Its network includes over 1 000 staff in more than 90 locations in the cities and regions of Australia and throughout the world.

## MARKET INFRASTRUCTURE ISSUES

Regional airlines provide passenger and freight transport services to rural communities. In 2000/01, an estimated 5.63 million passengers were carried by regional airlines, the majority in modern sophisticated turbine-powered aircraft specifically designed for the task. During the period 1980/81 to 2000/01 regional airlines achieved an average annual growth rate of 10.1 per cent in passengers carried, compared to 4.4 per cent by the major domestic airlines. Revenue passenger kilometres increased from 231.78 million in 1980/81 to 2,636.20 million in 2000/01, an average annual increase of 12.9 percent. Figure 1 shows passenger carriage performance measures over the period 1980/81 to 2000/01. This figure shows that revenue derived from passengers, availability of seats and percentage load factor have all increased steadily since 1980-82.

**Figure 1: Revenue Passenger KM (billions), Available Seat KM (billions) and Load Factor (%) 1980-81 to 2000-01.**



More than 20 per cent of Australia's exporters are from regional areas. Regional Australia generates over half of Australia's exports and accounts for one third of Australia's workforce. Agriculture and mining provide much of Australia's export income, but there are also many manufacturers and service providers successfully exporting from regional centres.

Australia's major agricultural and mining export goods are transported predominantly by road, rail and sea. However, regionally based Australian exporters of certain products that have a short shelf life or those products can only be sourced in specific regional locations are reliant on air freight services to supply products to their customers either on a regular or ad hoc basis. Table 1 below provides an overview of key regional airline performance indicators from 1980-1981 to 2000-2001.

**Table 1: Major Regional Aviation Performance Indicators, 1980/81 to 2000/01**

Year	Passengers Embarked	Revenue Passenger Km ('000)	Available Seat Km ('000)	Revenue Passenger Load Factor (%)	Freight (tonnes) Embarked (a)	Mail (tonnes) Embarked (a)	Total Tonne Km ('000) (a)	Revenue Weight Load Factor (%)
1980/81	827,115	231,782	453,499	51.1	3,455	424	22,558	46.2
1981/82	964,091	251,505	487,274	51.6	3,635	507	24,245	46.1
1982/83	974,623	259,329	509,094	50.9	3,477	453	24,880	44.9
1983/84	955,141	255,761	515,314	49.6	3,251	396	24,476	43.7
1984/85	980,498	259,523	536,064	48.4	3,253	392	24,835	43.2
1985/86	1,101,555	288,917	555,152	52.0	3,297	390	27,326	45.7
1986/87	1,169,155	319,055	606,268	52.6	3,422	305	29,965	44.2
1987/88	1,223,666	355,258	677,385	52.4	3,597	268	33,250	44.1
1988/89	1,332,590	403,886	789,041	51.2	3,208	263	37,435	42.8
1989/90	1,497,930	527,315	1,036,885	50.9	2,244	203	48,251	44.8
1990/91	1,798,294	644,040	1,267,944	50.8	2,508	153	58,851	42.4
1991/92	2,049,001	747,051	1,393,634	53.6	2,462	176	68,184	42.6
1992/93	2,345,390	852,214	1,522,172	56.0	2,253	111	77,475	43.6
1993/94	2,671,573	982,977	1,712,708	57.4	2,369	125	89,306	44.4
1994/95	2,977,509	1,126,826	1,961,940	57.4	2,345	106	102,280	43.6
1995/96	3,362,470	1,275,514	2,191,946	58.2	2,364	102	115,613	44.5
1996/97 (p)	3,843,582	1,499,408	2,513,971	59.6	2,534	57	135,750	45.1
1997/98 (p)	4,251,066	1,792,073	2,929,877	61.2	2,788	72	162,496	46.0
1998/99 (p)	4,337,843	1,872,339	3,090,161	60.6	2,620	85	169,705	45.4
1999/00 (p)	4,765,659	2,098,775	3,356,482	62.5	1,601	5	189,440	46.6
2000/01 (p)	5,628,138	2,636,196	4,076,897	64.7	1,502	0	237,697	48.5

(a) Due to reporting limitations, freight and mail statistics are incomplete.

(p) Provisional data.

Source: BTRE

These performance indicators suggest that while passenger revenues have increased, freight carriage has steadily declined and is presently under half of the 1980-81 level. The reasons for this decline is an area for possible investigation by the Committee, particularly with respect to the role the regional aviation sector plays in Australia's export of goods.

It is recognised that there are a range of infrastructure issues relating to the availability of air services which affect the viability of certain categories of exports in rural and regional Australia. The availability of air services and cargo space in regional centers is a particular concern in the export of products such as fresh seafood and other perishables that are regularly transported by air to markets in Asia. In the case of live fish exports, Austrade has identified two companies that are experiencing difficulty in exporting their product from Townsville because Townsville airport no longer services international routes. These companies are now required to transport their product to either Brisbane or Cairns by road for export, a delay that is detrimental to the viability of their export business. As a result, one of these companies is currently considering relocating to Cairns.

The issue of multiple handling of product and air freight availability is acute in remote centres. The inability of smaller companies to commit significant volumes up-front means that they are also subject to the vagaries of spot availability of transport.

The growing regions of northern Queensland, the Northern Territory, Western Australia and Tasmania are also at a significant cost disadvantage by the time product is transported to the major overseas distribution centres. This places significant pressure on the whole export chain from production through to distribution in the market.

The impact of seasonality is another difficulty experienced by small to medium-sized exporters in the horticulture sectors. For example, exporters of products such as tropical fruits face capacity problems in the high demand periods between November through to January and are often out-positioned by the higher-value, high volume exporters which have booked space in advance.

Others, including, for example, manufacturing companies which supply automotive components through just-in-time deliveries via road or rail freight and then by air to international markets, need the flexibility of air services to process urgent orders.

The timely delivery of goods requires reliable and accessible transport links. The ability of companies to offer international customers timely delivery schedules is an important consideration for companies in deciding upon location of facilities.

There is a need for air transport in the delivery of certain goods that can only be produced in regional areas to export markets, particularly those with a short shelf-life such as cut flower and live fish exports. In the interests of maintaining an efficient regional aviation sector that is economically robust, any consideration of the capacity of the industry to provide freight transport services must necessarily be couched in a sound understanding of the market context particularly with respect to demand for such services.

## **EXPORTING FOR WEALTH CREATION AND DEVELOPMENT IN REGIONAL AUSTRALIA**

Exporting brings economic and social benefits including the positive effects on wages and working conditions, cultural diversity, innovation and living standards. Australian exporters are innovative, provide better working conditions and pay more than non-exporters. Based on Austrade research, the average full-time wage paid by businesses that export was \$46,000 a year, compared with \$28,600 for businesses that do not export. Exporting businesses open to international trends and ideas also bring the benefits of cultural diversity and innovation.

The economic and social benefits of exporting are even more important in regional Australia with one in four jobs relying upon the export sector in regional and rural Australia compared to one in five nationally. Unlike businesses in metropolitan Australia, regional businesses do not always have immediate access to markets of adequate size. Exporting can increase the success of business by increasing market potential.

### **DOUBLING EXPORTERS BY 2006 - OPPORTUNITIES FOR REGIONAL AUSTRALIA.**

In 2001, Australia's export growth was the best in the Asia Pacific region, and exports grew by 8 per cent to A\$154 billion. Merchandise exports were worth A\$120 billion, with key performers including coal, crude petroleum, iron ore, metals, wine and automotive products.

Highlights of Australia's trade performance in 2001 include:

- The trade balance recorded a surplus of \$3.6 billion in 2001, a turnaround of \$9.7 billion on the deficit of \$6.1 billion recorded in 2000.
- Coal (\$12.5 billion), Crude petroleum (\$6.5 billion) and Iron Ore (\$5.2 billion) were Australia's largest individual merchandise exports.
- In 2001, exports of Primary products increased by 12 per cent, exports of Manufactures rose 8 per cent, Other merchandise exports rose 18 per cent and exports of Services fell 2 per cent.
- Between 1997 and 2001, total trade increased at an average rate of 8 per cent per annum.
- Exports increased at an average rate of 9 per cent per annum between 1997 and 2001.
- On a balance of payments basis, exports volumes increased by 1 per cent while import volumes fell by 4 per cent in 2001.
- Between 1997 and 2001, imports increased at an average rate of 9 per cent per annum.
- IN 2001, imports of Primary products rose 4 per cent, imports of Manufactures fell by less than one per cent, Other merchandise imports rose by 21 per cent and imports of Services rose by 4 per cent.
- The terms of trade rose one per cent.

The Commonwealth Government is committed to doubling the number of Australian exporters by 2006. Research undertaken by Austrade entitled *Knowing and Growing the Exporter Community*, details the significant economic and social benefits of this goal. For example the analysis indicates that such an increase will bring an increase in export revenue of 5 per cent per annum or \$40 billion over five years.

The *Knowing and Growing the Exporter Community* research also indicates that the next generation of exporters will be micro or small companies, knowledge-based and geographically dispersed. While large business still accounts for the major share of export revenue, micro and small business, and knowledge based industries, are growing much more rapidly. The research has also shown that future exporters are just as likely to be located in non-metropolitan Australia as in the capital cities. According to *Knowing and Growing the Exporter Community* the number of small businesses exporting will grow by 16 per cent per annum and SMEs by 15 per cent.

Annex A outlines Austrade's strategies to promote exports from rural and regional Australia.



## CONCLUSION

Regional Australia is an important growth sector in the Australian exporter community. Exporting brings economic benefits to both individual companies and to the regions in which they operate. Improved access to air services will assist regional businesses in their efforts to export, and the Government's goal of doubling the number of exporters by 2006.

Ensuring market access is paramount to the ongoing success of all Australian exporters, and a regional aviation sector that is efficient in the provision of passenger and freight transport services is necessary to consolidate the future success of current and burgeoning regional industries.

The Foreign Affairs and Trade will continue to play an important role in supporting the entry of regional business into exporting, enabling those businesses and their region to grow and prosper.

## **BUILDING CAPACITY OF REGIONAL BUSINESS TO EXPORT AND PROSPER.**

As part of the *Knowing and Growing the Exporter Community* research report, Austrade considered some of the main impediments to exporting for SME firms including the lack of awareness as to the benefits of export; the lack of resources, preparation skills and access to international networks; and the high risk perception.

Austrade's activities address these impediments to the initiation and expansion of exports by reducing the cost, time and risk of exporting for companies. The Commission's role is to assist those companies that are or are nearly, export-ready to access appropriate markets and to assist companies make the transition from "emerging" to "mature" exporter. To this end, Austrade provides a range of services and assistance to Australian businesses:

- facilitating access to distant and otherwise difficult or inaccessible overseas markets;
- providing advice on exporting;
- providing, information on overseas markets and opportunities and grants available for export marketing; and
- providing financial assistance to Australian exporters.

A description of four key mechanisms for the delivery of these services is provided below.

### ***Export Market Development Grants.***

The Export Market Development Grant (EMDG) scheme provides \$150 million of grants to thousands of smaller Australian companies each year to offset overseas marketing costs. Firms can apply for a grant if a minimum of \$15,000 is spent on marketing overseas. First-time applicants to the scheme can accumulate this expenditure over two years. The scheme strongly supports small companies, with more than 65 per cent of grants going to companies with 25 or fewer employees. In 2001-2002 approximately 20 per cent of grants went to non-metropolitan firms. Changes to the scheme in the May 2002 budget have further increased accessibility for small to medium sized firms.

### ***TradeStart***

TradeStart is a national network of export assistance offices in partnership between Austrade and a range of local private and public sector organisations throughout Australia. The TradeStart network currently operates in a range of locations servicing the needs of exporters and potential exporters, with a prime focus on rural and regional Australia, as well as delivering services to companies in metropolitan and outer metro areas. The network has expanded in 2002-2003, underlining the Government's commitment to growth in the export sector of rural and regional Australia. The TradeStart network develops local awareness of the benefits of exporting and the Government's trade and investment activities; provides export counselling and training, delivers Austrade services; and works with local export resources. In 2000-2001, TradeStart assisted 779 new clients and generated more than 2715 export enquiries.

### ***TradeSat***

Austrade operates the Tradesat video streaming system which links TradeStart offices with the Austrade worldwide network. The Tradesat system allows Austrade's international and domestic staff to work interactively with Australian exporters via a broadband satellite telecommunications link. The system provides exporters, particularly those in rural and regional Australia, access to up to date information on international markets and the ability to join in workshops and other events held by Austrade. The video streaming system will develop further to help exporters work with Austrade's international offices and overseas customers. Some examples of presentations delivered via the Tradesat system to locations around Australia during 2002 include "Food and Beverage opportunities in Singapore", "Pacific Markets - win business on your doorstep" and "WTO China and Taiwan - Business implications for Australia".

### ***Exporting for the Future (EFF)***

Through the EFF program, Austrade and the Department of Foreign Affairs and Trade regularly conduct a range of activities in rural and regional Australia to raise community attitudes towards trade, investment and globalisation. Activities also aim to increase the number of new exporters by raising awareness of overseas markets and communicating specific opportunities to current and potential exporters in those regions. EFF activities include a secondary school education program, seminars, workshops, participation in field days and are coordinated through Austrade's Regional Trade Commissioners, TradeStart offices, and state and local counterparts.