DEPUTY SECRETARY

File Reference: 08/628

Dr Kathleen Dermody
The Secretary
Senate Foreign Affairs, Defence and Trade Committee
PO Box 6100
PARLIAMENT HOUSE ACT 2600

Dear Dr Dermody

**Inquiry into the main economic and security challenges facing
Papua New Guinea and the island states of the southwest Pacific**

On 25 June 2008 the Chair of the Standing Committee on Foreign Affairs, Defence
and Trade, Senator Mark Bishop, invited the Minister for Infrastructure, Transport,
Regional Development and Local Government, the Hon Anthony Albanese MP, to
make a written submission to the Committee on the main economic and security
challenges facing Papua New Guinea and the island states of the southwest.

The Department of Infrastructure, Transport, Regional Development and Local
Government is pleased to provide the attached submission on Minister Albanese's
behalf. We thank the Committee for the opportunity to participate in this Inquiry.

Yours sincerely

Andrew Tongue

/5 October 2008

INQUIRY INTO THE MAIN ECONOMIC AND SECURITY CHALLENGES FACING PAPUA NEW GUINEA AND THE ISLANDS STATES OF THE SOUTHWEST PACIFIC

SENATE STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE

SUBMISSION BY THE DEPARTMENT OF INFRASTRUCTURE, TRANSPORT, REGIONAL DEVELOPMENT AND LOCAL GOVERNMENT

October 2008

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Comments addressing term of reference a(i): the implication for Australia of the major economic and security challenges facing Papua New Guinea and the island states of the southwest Pacific.

Overview: aviation safety and security

1 Safe and secure aviation services are crucial to Papua New Guinea (PNG) and the island states of the southwest Pacific, which depend on them for their economic wellbeing and growth. In much of PNG and the Pacific, air services are the primary means of connectivity. Without them both economic development and normal social interaction would be impossible.

2 The safety and security of these services are also important to Australia. Many Australians travel through the Pacific region and PNG and Pacific airspace is contiguous to Australia's (which itself covers 11 per cent of global airspace).

3 The Pacific aviation sector faces numerous challenges. The sector is struggling with rising fuel costs and is vulnerable to economic downturns. The recent entry of low-cost carriers has led to some reduction in airfares and significant increases in passenger traffic. But the sector continues to face challenges typical of remote and regional services, including servicing a number of non-commercially viable routes to smaller states. It is becoming increasingly difficult for small and government-owned regional carriers to remain viable in the current market conditions.

4 Australia views the international aviation security network as an interconnected system – any weaknesses in the system, especially at airports from which direct flights depart to Australia, can affect the security of Australia's aviation sector. Accordingly, strengthening Pacific aviation security is a matter of national interest.

5 Challenges for aviation security in PNG and the Pacific include a lack of funding, infrastructure and equipment, and a paucity of appropriately trained people at all levels.

6 The Department of Infrastructure provides aviation security support in PNG and the Pacific through:

- support of regional organisations, such as the Pacific Aviation Safety Office (PASO) and ICAO's Cooperative Aviation Security Programme (Asia/Pacific);

- staff exchanges of aviation security regulator personnel;

- aviation security training and, in some circumstances, the provision of equipment, in partnership with the New Zealand Aviation Security Service.

Papua New Guinea (PNG)

7   PNG is Australia's closest neighbour. As a last port of call, and with a high number of transiting Australians, aviation safety and security in PNG continues to be of significant national importance to Australia.

8   PNG's capacity to manage its civil aviation regulatory functions has been a longstanding source of concern. A decade ago the Australian Civil Aviation Safety Authority (CASA) began issuing short term Air Operator's Certificates (AOC) to PNG airlines flying into Australia due to a lack of confidence in PNG's safety oversight. Under this approach, before being authorised to operate into Australia PNG airlines had to be independently audited every three to six months. The PNG regulatory authority, the Civil Aviation Authority (CAA), had considerable debts and was depending on PNG Government subsidies to pay salaries, and on donor funds for airport maintenance.

9   A 2004 review of security arrangements at PNG's Jackson's International Airport identified a significant number of deficiencies in meeting minimum international security standards. Australia's placements under the AusAID funded Enhanced Cooperation Program (ECP) have brought about significant improvements to aviation security management and systems. But engagement under the successor *Strongim Gavman* Program (SGP) will be essential to maintaining and building on these achievements.

Enhanced Cooperation Program (ECP)

10   In 2004 the then Department of Transport and Regional Services (DOTARS) placed Australian officials in the positions of Deputy Chief Executive Officer and Aviation Security Adviser in the CAA under the ECP. This support has helped to stabilise the situation and, in particular, led to organisational reform, improved delivery of services and better compliance with international safety and security standards. Some specific achievements include:

- an improvement in the CAA's application of aviation safety standards leading to CASA granting PNG airlines AOCs for periods of 12 months;

- improvements in fiscal processes and management leading to the CAA recording a profit and retiring K$17 million in debt;

- a 50 per cent reduction in non-core staff;

- a memorandum of cooperation between Airservices Australia and the CAA (signed in January 2007) covering the provision of guidance and support on airspace safety; and

- restructure of the CAA into three separate entities: PNG Air Services Limited, an aviation safety and security regulator (which will retain the CAA title), and an Airports Corporation.

11   There is, however, some distance to go before sustainable capability is realised – ongoing support from the Australian Government will be necessary for the medium to long-term. Recent media coverage of deficiencies in aviation accident investigation in PNG highlights the continuing need for such assistance.

Nauru

12   Nauru's only aircraft, operated by 'Our Airline', is registered in Australia by CASA. 'Our Airline' operates under an Australian AOC renewed annually. The airline continues to face financial challenges and struggles to maintain operations without subsidisation.

13   Nauru was audited under the International Civil Aviation Organization (ICAO) Universal Safety Oversight Audit Program (USOAP) in March 2008. The audit results are not yet known. AusAID, with technical input from CASA, is funding the purchase of two vehicles that meet international (ICAO) aerodrome fire fighting standards.

Overview: maritime security

14   The maritime sector in the Pacific has an important role in addressing poverty in the region. Many Pacific Islanders rely on the sea for employment. Regular remittances from seafarers working on vessels that trade internationally comprise more than 25 per cent of gross national product (GNP) in some countries. This income allows many families of seafarers to remain in their villages rather than seek employment in urban centres, thereby reducing migration pressure.

15   Maritime security is an essential enabler for international trade and economic development, as recognised in the Pacific Islands Forum Principles on Regional Transport Services. The Department of Infrastructure has sought to engage consistently with the region on maritime security issues, supporting regional countries and regional organisations to improve security.

16   The Pacific maritime security model of jointly building capacity, developing policy and auditing is unique and allows for strong cooperation among regional states. But despite the progress to date, there are still significant shortcomings in the region's preventative security regimes. Future work will need to focus on strategic policy as well as operational capacity building.

17   The goal for Australian support is to see the establishment of maritime security regimes in the region that:

- improve compliance with the International Ship and Port Facility Security (ISPS) Code;

- increase maritime security governance capacity to implement ISPS Code preventative security arrangements; and

- improve governance arrangements for the development of a regional maritime security agenda.

18   The contribution by the Department of Infrastructure is in two main areas:

- providing maritime security expertise and support through ECP, its successor and other Australian aid programs in PNG; and

- supporting regional partner organisations such as the Secretariat of the Pacific Community Regional Maritime Program, which seeks to achieve a coordinated and consistent approach to maritime security across the 22-member Pacific Community.

Comments addressing term of reference a(ii): how the Australian Government can, in practical and concrete ways, assist these countries to meet the challenges facing Papua New Guinea and the island states of the southwest Pacific.

19 The Department of Infrastructure will continue its practical assistance to PNG and the broader Pacific region to enhance aviation and maritime safety and security. This assistance will be through bilateral aid programs with key regional countries and broader assistance to regional organisations, including PASO and the Pacific Island Air Services Agreement (PIASA).

20 In the aviation area, our focus is on increasing the capacity of regional states to meet ICAO standards and recommended practices. ICAO will audit PNG and other regional states over the next couple of years as part of its audit program of national safety oversight systems. These audits will be useful in assisting to identify trends in safety oversight.

Strongim Gavman Program (SGP)

21 The Australian and PNG Governments have agreed on a successor program to the ECP, the *Strongim Gavman Program* (SGP). The Department of Infrastructure has further agreed with PNG counterpart agencies that future Australian Government assistance under SGP will focus on:

- collaborative work to ensure PNG is prepared for its ICAO USOAP;

- continued cooperation on the development of international airports in PNG;

- continued cooperation on development of PNG capability to ensure compliance with the the IMO International Ship and Port Security code (ISPS) and all aspects of maritime security;

- continued collaboration on transport security and aviation safety; and

- exploration of options for assisting PNG to prioritise infrastructure projects.

22 The Australian Government has committed to providing a total of four SGP officials to advise PNG on aviation safety and security, maritime security, and transport policy and strategic issues.

23   This engagement under SGP is vital to achieving a strong policy, regulatory and capacity building focus for PNG to address its maritime security, aviation safety and aviation security regulatory deficiencies, as well as preparations for PNG's USOAP in early 2009 and exploring the possibility of establishing a transport security unit within the PNG Department of Transport.

24 In focusing on long term, agency to agency relationships through the placement of Australian Government officials in PNG government agencies, our engagement under SGP will complement our other aid programs, including 'twinning' arrangements through which we will provide specific and targeted technical assistance. Agencies in the portfolio, including CASA, Airservices Australia and the Australian Transport Safety Bureau (ATSB) will be involved in these activities.

The broader regional challenge

25 Meeting the economic and security challenges facing PNG and the island states of the southwest Pacific can be a challenge in itself. Improving the effectiveness of assistance to the region would result in a higher level of return for Australia's investment.

26   The Pacific Plan is integral to the region's long-term vision and incorporates a number of regional organisations that actively contribute to the realisation of the goals. Flexible approaches to addressing critical needs as they arise are required if we are to avoid the need for more expensive, longer-term fixes. The availability and accessibility of funds is an ongoing issue. Funding for the Pacific Regional Transport Study was quickly exhausted and no dedicated funding mechanism for regional transport has since been available.

27   Currently, the restrictive conditions of annual funding programs and the lengthy application process prohibit meeting resource needs. A more flexible aid program, reinforced by proactive initiatives (as opposed to reactive responses) would address needs effectively with a relatively small amount of funding.

28   PASO is an example of where more flexible assistance could be effective. PASO forms part of the Pacific Plan but it is not under a bilateral funding arrangement. Often its needs, which in the judgement of the Department of Infrastructure are critical, fall outside of the conditions of other Pacific programs. A flexible approach that enables technical agencies to propose strategies to address these needs would be an improvement on the current lengthy and complex processes.

Comments addressing term of reference b(ii): barriers to trade, foreign investment, economic infrastructure, land ownership and private sector development

<u>International air services</u>

29 Access to international air services is particularly important for countries like PNG and the island states of the southwest Pacific. Limited access due to the topography of the region makes air transport critical to economic growth and sustainability, and international air services provide a source for inbound tourism (a key industry), and more fundamentally, the means to transport food, mail and essential goods.

30 Unlike other industries, the international aviation market is closed until governments act to open them. Governments must negotiate treaties, under a complex bilateral system of air services arrangements, to enable airlines to access other markets.

31 These arrangements grant rights for airlines to operate between countries, specifying any destinations they may serve en-route to and beyond the bilateral partner, and the extent of commercial opportunities they may engage with other airlines in providing those services.

32 While often perceived as a dated and restrictive system, the bilateral system remains the predominant means for growing air transport services, and countries have sought through bilateral negotiations to liberalise their air services arrangements.

Australia's role in the region

33 The Australian Government has been a strong proponent of air services liberalisation and has worked consistently with airlines to develop air services opportunities in PNG and the region.

34 Australia has air services agreements/arrangements with ten countries in the region: the Cook Islands, Fiji, Nauru, Niue, Palau, PNG, Samoa, the Solomon Islands, Tonga and Vanuatu.

35 Through membership of the Pacific Islands Forum, Australia and New Zealand facilitated the development of the multilateral Pacific Islands Air Services Agreement (PIASA), which aims to remove the commercial limitations of the bilateral system, creating a single aviation market in the region and providing greater flexibility for airlines to access markets and source investment capital.

36 These arrangements provide flexible opportunities for Australian and Pacific airlines to develop air services in the region. Exploitation of these opportunities is a commercial decision for the airlines (see <u>Appendix A</u>). The current participation of Qantas, Virgin Blue, Pacific Blue and Polynesian Blue in Pacific aviation markets is outlined in <u>Appendix B</u>.

The Pacific Islands Air Services Agreement (PIASA)

37 PIASA was developed between 1998 and 2003 at the request of Pacific Islands Forum aviation ministers. It was driven by the need to allow air transport to fully develop and become more efficient given the vast distances between the Forum member states, the relatively small market economies and the high cost of air travel.

38 PIASA provides more flexibility and options for airlines to adapt to, and capitalise on changing markets by:

- increasing airlines' access to key routes throughout the region;

- providing airlines with the opportunity to expand to commercially sustainable size;

- developing greater efficiency of services by facilitating code-share and other interline alliances;

- reducing the cost of air travel in the region;

- creating greater connectivity from these developments and increasing convenience and attractiveness for tourists; and

- improving options for freight services, benefiting traders.

39   PIASA also creates opportunities for airlines to access markets and source investment capital by removing commercial restrictions, including the requirement that airlines be substantially owned or controlled by individual states. PIASA enables airlines to operate on any route between states that are signatories to the agreement.

40   PIASA entered into force on 13 October 2007 between Cook Islands, Nauru, Niue, Samoa, Tonga and Vanuatu. Tuvalu, Solomon Islands, PNG and Kiribati have signed the agreement but are yet to ratify it. Fiji to date has not supported PIASA, seeing no potential advantages to its economy or to its national carrier, Air Pacific.

41   Australia supports PIASA and encourages member countries to sign and ratify it. Australia and New Zealand can become parties to PIASA from April 2010, at which time PIASA would supersede existing bilateral arrangements.

42   Some Forum member states have raised concerns about the potential for dependence on foreign airlines, should larger Australian or New Zealand carriers be able to freely enter the market. Consultation with Pacific Governments to address this concern will occur before Australia seeks to accede to PIASA.

Comments addressing term of reference b(iii): an examination of current regional organisations such as the Pacific Island Forum and the Secretariat of Pacific Community.

<u>Pacific Aviation Safety Office (PASO)</u>

43 PASO grew out of the 1998 Pacific Islands Forum's aviation Ministers' meeting, which resolved to develop a standardised, regionally based safety oversight service to assist member states to meet their obligations under the 1944 *Convention on International Civil Aviation* (the Chicago Convention). PASO is designed to enable economies of scale through regional collaboration on safety and security oversight. The current PASO member states are Australia, Cook Islands, Fiji, Kiribati, Nauru, New Zealand, Niue, PNG, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. PASO forms part of the Pacific Plan and is integral to improving regional aviation safety and security standards.

44 PASO is an inter-governmental organisation that provides safety and security oversight services to member states on a cost-recovery basis. The multi-lateral Pacific Island Civil Aviation Safety and Security Treaty (PICASST) provides the legal umbrella for the work of PASO and the Council of Directors, formalising arrangements for the collaborative approach to safety and security oversight in the region.

45 PASO is a unique concept in both regional and global terms. Not only is this the first time this type of cooperative approach has been attempted in the Pacific, a number of states have acted as guarantor for an Asian Development Bank (ADB) loan, and safety oversight service provision is provided by a regional organisation on a cost-recovery basis. The Department of Infrastructure considers that every effort should be made to ensure PASO can reach its potential and become self-sustaining. Failure will have a number of serious implications, particularly for PNG, Samoa, Tonga and Vanuatu as guarantors for the ADB loan.

46 Australia has been a strong supporter of PASO and is one of eight founding members. While Australia does not intend purchasing services from PASO, as a member of the PASO Council of Directors, we have provided substantial financial support, practical assistance and advice on aviation safety and security matters in the Pacific.

47 In addition to paying its annual membership fees, Australia (through the Department) has provided the following assistance to PASO since its inception:

- a start-up donation in 1999 of $100,000 and provision of an acting General Manager (from CASA) until PASO could appoint a permanent General Manager in February 2005;

- a further $50,000 in 2006 to allow PASO to continue to pay for office running costs and the General Manager's salary until the ADB loan became effective;

- secretariat and administrative support, advertising costs and independent background screening of candidates for the recent General Manager recruitment process; and

- covering the costs of a March 2005 independent governance audit of the first General Manager recruitment process.

48 On PASO's behalf, the Department of Infrastructure has received funding under AusAID's Pacific Governance Support Projects for two projects:

- the *Secondment of Technical Staff* for the development of safety and security technical inspection manuals; and

- *Enhancing the Financial Management & Accountability of PASO* to improve the organisation's financial management and cost-recovery capabilities.

49   New Zealand also provides assistance to PASO, including a NZD$250,000 supplement to the ADB technical assistance grant and fully funding for two years an Aviation Security Inspector.

PASO: The way ahead

50   Under a new General Manager, PASO is making some headway in achieving full operational status. There is now something approaching a full complement of technical staff. Service Level Agreements are currently being agreed with member states and a Working Arrangement has been signed with the Civil Aviation Authority of New Zealand. A Working Arrangement with CASA has been drafted and is likely to be signed by the end of October 2008.

51   PASO nevertheless faces several severe challenges. Financial management and human resource constraints are hindering PASO's effective and sustainable operations as an aviation safety and security service provider.

52   ADB loan funds are being spent at a high rate to support overhead costs, particularly while PASO is still negotiating service agreements with member states. Member states have been slow to purchase services from PASO, affecting PASO's ability to collect revenue. PASO has recently made several urgent requests for additional funding.

Secretariat of the Pacific Community (SPC), Regional Maritime Program (RMP)

53   The Secretariat of the Pacific Community (SPC) is an international organisation that provides technical assistance, policy advice, training and research services to the 22 member states. The Regional Maritime Program (RMP), a subsidiary of SPC, is based in Suva. RMP provides:

- advice on maritime issues;

- technical capacity supplementation; and

- training for maritime administrations, training institutions, ports, ship owners and seafarers throughout the region to ensure their operations conform to international treaties, codes and conventions, and accepted best practice.

54   The main objectives of the RMP are:

- effective national policy and regulatory frameworks and strong maritime institutions;

- human resource capacity strengthened;

- strong professional networks in the Pacific maritime sector; and

- national, regional and international recognition of Pacific maritime needs and priorities.

55   The RMP assists Pacific Island states and territories to meet international maritime treaties, conventions and codes intended to promote a commercial level playing-field and provide for uniform application and enforcement of ship and port safety

standards, security requirements, management practices and pollution prevention regulations.

56   Flag States (i.e. countries where ships are registered) are under increasing pressure to fulfil their obligations under the United Nations Convention on the Law of the Sea 1982 and other international maritime conventions and codes. Growing international concern about terrorist attacks resulted in the introduction of new legal requirements, e.g. the International Ship and Port Facility Security (ISPS) Code. The speed with which new rules are planned, proposed and expected to be implemented is a challenge for Pacific regional maritime administrations, which have limited staff resources and budgets.

57   Given the limited resources available to administrations and training institutes in the maritime sector of many Pacific Island states and territories, there is a need for a long-term regional approach to ensure the sector's sustainability and good management. The Pacific Islands Maritime Association (PacMA – formerly the Association of Pacific Islands Maritime Training Institutions and Maritime Authorities), supported by the RMP, plays a vital role as a forum for member countries to discuss and harmonise education and training for seafarers. The RMP also provides secretariat services to the Pacific International Maritime Law Association (PIMLA) and the Pacific Women in Maritime Association (PacWIMA).

58   The Department of Infrastructure works with the RMP on a number of initiatives, including:

- mentoring for regional Designated Authorities to improve their regulatory capacity;

- providing Office of Transport Security maritime experts, in response to specific requests for assistance;

- producing a Pacific Cruise Industry Security Risk Context Statement;

- providing specialist instructors for training courses on maritime security drills and exercises, and auditor training;

- sponsorship of the inaugural Pacific Maritime Security Conference, Nadi Fiji, 12-15 May 2008, and

- observance of maritime security audits to assess capability and capacity development requirements.

Air Services Arrangements between Australia and Papua New Guinea and the island states of the southwest Pacific

The Cook Islands

Current air services arrangements settled in 1999, entitle Australia and Cook Islands airlines each a total of 500 seats a week in each direction, and unlimited frequency of freight services.

Cook Islands' airlines may operate from the Cook Islands to three points in Australia via five intermediate points of choice. Australian airlines may operate to Rarotonga via five intermediate points and beyond to three points of choice. Code share arrangements with same, bilateral and third-country carriers are permitted.

Airlines of either side may also operate jointly with members of the Association of South Pacific Airlines between Australia and Rarotonga, via points in the area bordered by PNG, Palau, the Marshall Islands, French Polynesia and New Zealand.

The adequacy of current air services arrangements is currently under review.

Current air services operations: Australian airline Pacific Blue operates two B737 services (360 seats) a week from Brisbane to Rarotonga via Auckland and plans to commence services from Melbourne from September 2008.

Current aviation market: As at June 2008, the air services market between Australia and the Cook Islands totalled over 21,000 a year (203 passengers each way each week). While declining incrementally during the last three years, (an average 0.1% a year from 2004-07), the market has grown overall an average 4.6% a year from 1992 to 2007. The market is comprised mainly of outbound passengers (87.5%), suggesting a strong tourism market to the Cook Islands.

In the year ending March 2008, 46.5 tonnes of freight to a value of nearly $2.7 million was exported to the Cook Islands by air. Over $100,000 worth of freight was imported.

Air services with Fiji

Current air services arrangements signed in 1999, entitle Australian airlines 5000 seats and Fijian airlines 6000 seats per week in each direction; and for all-freight services, 70 tonnes per week in each direction for each side.

Fijian airlines may operate to Australia via any points, and beyond Australia to two nominated points. Australian airlines may operate to Fiji via any points and beyond Fiji to points in Tahiti, the United States and Canada. They may also operate beyond to New Zealand, provided they have made cooperative commercial arrangements with a Fijian airline for the journey between New Zealand and Fiji. Code share arrangements with same, bilateral and third-country carriers are permitted.

The adequacy of current air services arrangements is currently under review.

Current air services operations: Fijian airline Air Pacific operates 22 services (5880 seats) a week from Nadi, including ten services to Sydney, eight to Brisbane and four to Melbourne. Qantas code-shares on all these services.

Australian airline Pacific Blue also operates twelve B737 services (2160 seats) a week to Nadi, seven from Brisbane and five from Sydney. Additional services will commence from Sydney in October 2008.

Current aviation market: Fiji is Australia's largest aviation market in the region. In the year ending June 2008, passengers travelling between Australia and Fiji exceeded half a million people (nearly 4900 each way each week), with almost 90% outbound passengers. Over 1997-2007, the market grew an average of 8.6% a year.

In the year ending March 2008, 2840.3 tonnes of freight to a value of nearly $88.5 million was exported to Fiji by air. Over 2000 tonnes to the value of more than $42 million was imported from Fiji.

Air services with Nauru

Current air services arrangements allow airlines Australia and Nauru each to operate three services a week in each direction using aircraft up to B737 capacity.

Australian airlines may operate from Australia via Honiara, Noumea and/or PNG to Nauru. Nauru airlines may operate from Nauru, via Honiara and Noumea, to three points in Australia (currently nominated as Sydney, Melbourne and Brisbane).

Code share arrangements with same, bilateral and third-country carriers are permitted.

Current air services operations: Nauru airline, 'Our Airline' operates two B737 services (260 seats) each way each week from Nauru via Honiara (in the Solomon Islands) to Brisbane. One service continues beyond Nauru to Tarawa (in Kiribati).

Current aviation market: no data currently available

In the year ending March 2008, 37.5 tonnes of freight to a value of nearly $1.5 million was exported to Nauru by air. Over 0.2 tonnes to the value of more than $49,000 was imported from Nauru.

Air services with Niue

Current air services arrangements settled in 1999 allow airlines of Australia and Niue each a total of 500 seats a week in each direction, and unrestricted freight services.

Australian airlines may operate to Niue via 5 intermediate points and to 3 points beyond. Niue airlines may operate via 5 intermediate points to 3 points in Australia.

Code share arrangements with same, bilateral and third-country carriers are permitted.

Airlines of either side may also operate jointly with members of the Association of South Pacific Airlines between Australia and Niue, via points in the area bordered by PNG, Palau, the Marshall Islands, French Polynesia and New Zealand.

Current aviation market: no data currently available

In the year ending March 2008, 0.7 tonnes of freight to a value of nearly $42,000 was exported to Niue. Over 3.3 tonnes to the value of nearly $20,000 was imported from Niue.

Air services with Palau

Current air services arrangements settled in 2004 allow airlines of Australia and Palau each a total of 1200 seats and 150 tonnes of freight a week in each direction.

They may operate between Australia and Palau, via 2 intermediate and/or beyond points (excluding US or Canada). However, airlines of Palau may not operate passenger services to/from Sydney, Melbourne, Brisbane or Perth.

Code share arrangements with same, bilateral and third-country carriers are permitted. Flexible leasing arrangements are also in place to enable airlines to use own aircraft,

leased aircraft, or aircraft and crew to operate these services, provided the relevant safety requirements have been met.

Current aviation market: no data currently available

In the year ending March 2008, 2.8 tonnes of freight to a value of nearly $130,000 was exported to Palau. 0.1 tonnes of freight to a value of over $23,000 was imported from Palau.

Air services with Papua New Guinea (PNG)

Current air services arrangements settled in 1998, allow airlines of Australia and PNG each a total of 3200 seats and 100 tons of freight a week in each direction.

Airlines of either side may operate direct services between Australia and PNG, or jointly with members of the Association of South Pacific Airlines, via points in the area bordered by PNG, Palau, the Marshall Islands, French Polynesia and New Zealand.

Current air services operations: Airlines of PNG operates ten services (636 seats) a week from Port Moresby, with three flying to Cairns and seven to Brisbane, wet-leasing aircraft from Nauru airline 'Our Airline'.

Air Niugini operates 24 services (2643 seats) a week from Port Moresby, with eight to Brisbane, one to Brisbane then Sydney, one to Sydney direct and nine to Cairns. Qantas code-shares on Air Niugini services.

Current aviation market: In the year ending June 2008, passengers travelling between Australia and PNG exceeded 182 000 people (1756 each way each week), with over 60% outbound passengers. While the market shrank an average 0.3% a year from 1997-2007, the last five years have shown consistent growth of 5.1%.

In the year ending March 2008, over 2650 tonnes of freight to a value of more than $220.5 million was exported to PNG by air. 274.1 tonnes of freight to a value of over $1.12 billion was imported from PNG.

Air services with Samoa

Current air services arrangements settled in 1999, allow airlines of Australia and Samoa a total of 1000 seats and unrestricted freight services a week in each direction.

Samoan airlines may operate between Samoa and three points in Australia, via Auckland, Wellington, Nadi, Nuku'alofa and Vila. Australian airlines may operate between Australia and Apia, via Nadi, Noumea, New Zealand, Nuku'alofa and Vila.

Code-share arrangements with airlines of same or bilateral countries are permitted.

Airlines of either side may operate jointly with members of the Association of South Pacific Airlines between Australia and Samoa, via points in the area bordered by PNG, Palau, the Marshall Islands, French Polynesia and New Zealand.

Current air services operations: Polynesian Blue operates three services (540 seats) a week from Apia to Sydney.

Current aviation market: In the year ending June 2008, passengers travelling between Australia and Samoa exceeded 46 700 people (449 each way each week), with nearly 80% outbound passengers. Over the last 15 years (1992-1997), the market has grown an average of 10.4% a year.

In the year ending March 2008, 42.5 tonnes of freight to a value of more than
$4.2 million was exported to Samoa by air. 63.4 tonnes of freight to a value of over
$1.6 million was imported from Samoa.

Air services with Solomon Islands

Current air services arrangements allow airlines of Australia and Solomon Islands
each a total of 850 seats each way each week.

Solomon Islands' airlines may operate from the Solomon Islands, via Vanuatu, Nauru
and/or New Caledonia, to Sydney, Melbourne, Brisbane, Townsville and/or Cairns.

Australian airlines may operate from Australia, via Vanuatu, Nauru and/or New
Caledonia, to Honiara. Australian airlines may also operate beyond Solomon Islands
to three points of choice, so long as a Solomon Islands' airline is not operating or
code-sharing on that route.

Code share arrangements with same, bilateral and third-country carriers are permitted.
Airlines of either side may operate jointly with members of the Association of South
Pacific Airlines between Australia and Solomon Islands, via points in the area
bordered by PNG, Palau, the Marshall Islands, French Polynesia and New Zealand.

Current air services operations: SkyAirWorld operates three services (246 seats) a
week from Brisbane to Honiara. Solomon Airlines operates three B737 services (432
seats) a week from Honiara to Brisbane and code-shares with Air Vanuatu on a
Honiara-Port Vila-Sydney service.

Current aviation market: In the year ending June 2008, nearly 34000 passengers flew
between Australia and Solomon Islands (326 passengers each way each week).
Nearly 56% of passengers travelled outbound to Solomon Islands. Between 2004 and
2007, the market grew an average of 11.7% a year.

In the year ending March 2008, 526.8 tonnes of freight to a value of nearly
$21 million was exported to Solomon Islands by air. 22.4 tonnes of freight to a value
of over $2 million was imported from Solomon Islands.

Air services with Tonga

Current air services arrangements allow airlines of Australia and Tonga each a total
of 600 seats each way each week between Tonga and Sydney, Melbourne Brisbane or
Perth, and unrestricted services to any other point in Australia. Airlines may also
operate unrestricted freight services to any point in Australia.

Airlines of each side may operate via Noumea and any four points in the South Pacific
Forum countries. Australian airlines may also operate beyond Tonga to 3 points in
the South Pacific Forum countries.

Code share arrangements with same, bilateral and third-country carriers are permitted.
Airlines of either side may operate jointly with members of the Association of South
Pacific Airlines between Australia and Nuku'alofa, via points in the area bordered by
PNG, Palau, the Marshall Islands, French Polynesia and New Zealand.

Current air services operations: Australian airline Pacific Blue operates two B737
services (360 seats) a week, from Sydney to Nuku'alofa and beyond to Auckland And
plans to add an additional service from Melbourne in late September 2008.

Current aviation market: In the year ending June 2008, 28, 713 passengers travelled between Australia and Tonga (276 each way each week). Nearly 73% were outbound passengers. Over the last ten years (1997-2007), average annual growth was 7.2%.

In the year ending March 2008, 34.8 tonnes of freight to a value of over $3 million was exported to Tonga by air. 6.1 tonnes of freight to a value of over $73,000 was imported from Tonga.

Air services with Vanuatu

Current air services arrangements allow airlines of Australia and Vanuatu each a total of 1400 seats and 100 tons of freight each way each week.

Airlines of Vanuatu may operate from Vanuatu, via New Caledonia, to three points in Australia. However, they may not uplift traffic in Noumea to be discharged in Australia or vice versa.

Australian airlines may operate from Australia, via New Caledonia, to Port Vila and/or Santo, and beyond to any points. However, they may not uplift passengers from Port Vila to be discharged in Fiji, New Caledonia, New Zealand or the Solomon Islands, or vice versa.

Code share arrangements with same, bilateral and third-country carriers are permitted. Airlines of either side may operate jointly with members of the Association of South Pacific Airlines between Australia and Vanuatu, via points in the area bordered by PNG, Palau, the Marshall Islands, French Polynesia and New Zealand.

Current air services operations: Air Vanuatu operates nine B737 services (1530 seats) from Port Vila: Six services to Sydney; one service to Brisbane; one service to Brisbane and beyond to Santo then back to Port Vila and one service in the opposite direction. Qantas code-shares on these services.

Australian airline Pacific Blue operates two B737 services (360 seats) from Brisbane to Port Vila. Services to Sydney will commence in October 2008.

Current aviation market: In the year ending June 2008, over 110 000 people travelled between Australia and Vanuatu (1064 passengers each way each week). 85.5% of passengers were outbound. Over the last 10 years (1997-2007), average annual growth in the market was 6.6%.

In the year ending March 2008, 225.1 tonnes of freight to a value of more than $11 million was exported to Vanuatu by air. 39.3 tonnes of freight to a value of over $640,000 was imported from Vanuatu.

Investment by and interests of Australian airlines in PNG and the island states of the southwest Pacific

Qantas Group

The Qantas Group mainly participates in the Pacific aviation markets through code-share arrangements with regional airlines. Qantas codeshares on:

- **Air Pacific** services between Fiji and Sydney, Brisbane and Melbourne;

- **Air Niugini** services between Port Moresby and Brisbane, Sydney and Cairns; and

- **Air Vanuatu** services between Vanuatu and Sydney and Brisbane.

Virgin Blue

Virgin Blue Australia participates in the Pacific aviation market through its subsidiaries, Pacific Blue and Polynesian Blue, operating B737 (180 seat) aircraft.

In each direction each week, **Pacific Blue** operates:

- 2 services from Sydney to Nuku'alofa, Tonga and beyond to Auckland with plans to add a service from Melbourne in late September 2008;

- 3 services between Brisbane and Port Vila, Vanuatu, with services from Sydney to commence in October;

- 5 services between Nadi, Fiji and Sydney, with additional services to commence in October 2008;

- 7 services between Nadi, Fiji and Brisbane; and

- 2 services between Brisbane and Rarotonga, the Cook Islands, via Auckland. Pacific Blue also plans to commence services between Raratonga and Melbourne from September 2008.

Polynesian Blue, a joint venture with the Government of Samoa, operates 3 services each way each week between Sydney and Apia, Samoa.