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Opportunities and challenges faced by Australia's aviation sector –a Qantas Group perspective

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Aviation and tourism are important elements of Australia's sector. The aviation industry is valuable in its own right and for its contribution to Australian tourism and other transport dependent industries.

Given Australia's size, population distribution and relative isolation from source markets, aviation links assume particular importance for tourism. Each makes a significant contribution to Australia's exports in an increasingly competitive international environment.

We like to think that the Qantas Group plays an important role. Our integrated network connects international flights with domestic and regional services via the main gateway points and assists in distributing inbound tourists throughout Australia. In conjunction with key tourism bodies, Qantas and Jetstar undertake significant activity in promoting Australia overseas.

While the price, quality and availability of air links have an important bearing on the competitiveness of Australia as a destination, non-aviation aspects of Australia's tourism offering, including product quality, marketing, infrastructure and facilitation issues are also significant.

There has been significant structural change in the aviation sector in recent years. Capacity is king in driving demand in the domestic market, the regional market, and the international market.

This phenomena has been driven by the arrival of the low cost carrier model. The introduction of low cost carriers domestically has increased the share of domestic travel in the economy cabin.

More efficient utilisation of aircraft has enabled trend increases in load factors in all markets. The fixed cost efficiencies that have ensued from the trend increase in market load factors has enabled nominal price decline in the domestic market.

Macroeconomic factors such as exchange rate movements also have a significant bearing on Qantas and Australia's success as a tourism exporter –and now we have the impact of the global financial situation.

Although Qantas is Australia's major international airline and over half of its traffic consists of inbound visitors, it carries only approximately 30 percent of all international arrivals.

The majority of inbound tourists are carried by our 40+ competitors in Australia's international market, many of them government-owned or subsidised and/or enjoy favourable home based hub advantages. Qantas' ability to contribute to further growth in inbound tourism will be heavily influenced by its international competitiveness relative to these airlines.

While this challenge rests largely with us, it is important that policy settings for Australia's aviation industry recognise the uneven playing field and the distortions associated with the bilateral framework governing aviation.

Qantas Group – a consumer and supplier of services

A strong, flexible and diverse services sector is vital not only for Australia, but also to the ability of Qantas and other carriers based here to compete internationally.

In undertaking aviation-based activities, Qantas and Jetstar rely upon - and generate demand for - a wide range of goods and services. These services include financial, information and communications technology, advertising, printing and publishing, catering, cleaning, engineering and maintenance, ground handling, ground transport, airport services, design and construction, accommodation, air navigation, air safety inspection, rescue and fire fighting, meteorology, insurance, security, health, and news/music/entertainment.

Some of these services are mandated by regulation, while others relate to Qantas' competitive product and market offering; some are provided in-house and others by external suppliers; and some are provided by major specialists, others by small businesses.

Aviation Policy

The Qantas Group welcomes the Australian Government's comprehensive review of aviation policy and the draft policy settings detailed in its *Flight Path to the Future* Green Paper released in December 2008.

The proposed initiatives are broad ranging and forward-looking, and will play an important role in providing a coordinated framework for the Australian aviation industry over the longer term.

We welcome the Government's recognition that perhaps more than any other country, Australia's economic prosperity is tied closely to the viability and competitiveness of its aviation sector. This highlights the importance of an integrated approach across environmental, infrastructure, regional development, taxation and industry policies.

Australia's reliance on international air links to deliver inbound tourists means that the aviation and inbound tourism industries are more closely bound than in some other countries.

This geographic dependence has led to calls for "open skies" by some Australian tourism interests and stakeholders in related industries. Notwithstanding the absence of a clear or accepted definition of the term, some advocates of "open skies" view an offer of unfettered access to Australia's aviation markets as the only means of delivering tourism growth.

As many will know, the aviation sector is distinctive for a service industry in having its own stand-alone international regulatory regime – based on bilateral air rights.

Such calls often overlook the complexities of the bilateral system governing aviation access rights and fail to recognise that, for the great majority of markets, capacity has already been negotiated well ahead of demand.

For example, the total capacity yet to be potentially utilised at Melbourne by foreign carriers from Australia's top 20 markets is the equivalent of 132 weekly B747 services. This excludes the potential for these carriers to transfer existing capacity from points other than Melbourne.

In addition to this, unlimited capacity can be operated to Melbourne under Australia's bilaterals with New Zealand, UK, US, and Singapore and this capacity figure will increase with the completion of bilateral talks that have been taking place this financial year.

They also ignore the many factors, including high levels of government ownership and support, which prevent airlines from competing on a level playing field. Government owned airlines' capacity has grown to almost 50% of total international capacity over the past two decades.

Stepping back from the emotive debate, it is clear that Australia needs a wide-ranging and competitive network of air services, capable of attracting increased tourist numbers in all market segments, and that aviation policy that enable airlines to compete and grow on a sustainable basis is also required.

Further liberalisation of Australia's air services must therefore occur in a balanced way, recognising the economic and strategic importance of Australian based airlines, and enabling aviation and tourism to grow.

The pursuit of greater international market access to improve commercial opportunities for Australia's airlines foreshadowed in the Green Paper will be fundamental in supporting the future growth and competitiveness of Qantas, Jetstar and our freight business, and that of Australian based industries more broadly.

We are pleased to see that the proposed policy settings recognise the structural advantages enjoyed by many of our major competitors and the need to consider these when determining a balanced approach to market liberalisation. While these factors are an ongoing source of competitive benefit to these carriers, their value magnifies in weak global economic conditions.

As the aviation-operating environment becomes increasingly complex, it is imperative that an agile regulatory framework is in place. This framework should enable industry and government to better engage with both potential and realised threats, and consider the protection of people and aircraft in the air and on the ground as part of a holistic and integrated strategy.

Australia's approach to liberalising access to international markets

Qantas supports the Government's proposal to take into account the extent to which international airlines are prepared to invest in Australia when assessing the national interest for bilateral negotiations. We believe this will facilitate a clearer and desirable distinction between those carriers with a genuine commitment to the market through investment in Australian jobs and tourism promotion, and those that simply exploit Australia's liberal aviation policy to feed their broader networks.

While having an interest in bringing traffic to Australia, foreign carriers are naturally predominantly interested in attracting outbound travellers destined for either their home country or points beyond, i.e. feeding traffic to and through their hubs. The level of investment spent on marketing Australia internationally versus promotions to attract outbound traffic will therefore need to be distinguished in applying this criterion.

It nonetheless remains important to recognise that carriers who are large and financially secure and/or operate in environments where aviation is at the forefront of a broader national agenda are far better placed to exercise their financial leverage for the purpose of being granted additional rights at air services negotiations.

Improving access to regional areas

Qantas notes that the Government does not believe that proposals to liberalise ownership requirements for Australian international airlines to enable majority foreign-owned domestic airlines, such as Tiger Airways, to operate international services from Australia would result in foreign airlines commencing services to regional airports.

Qantas agrees with this view. Australia has a number of low cost airline vehicles, for example, Jetstar, which are highly efficient by global standards. If international services from regional ports were commercially viable, it is almost certain that these carriers would be operating these routes.

Australia already has one of the most liberal aviation regimes in the world, providing foreign airlines with significant opportunities to access the domestic market. These rights are available in only a few countries around the world. However, no country is yet to permit a foreign carrier to operate international services from its home base.

In relation to foreign ownership, the Green Paper has highlighted a possible move to a principal place of business criterion in the longer term, should international developments continue in that direction.

Foreign ownership rules – *is there a need for change?*

We accept that the Government proposes to retain the basic 49 percent restriction on foreign investment in all Australian international airlines, but will continue to examine whether it is appropriate to retain this constraint over time. It is important to ensure that Australian carriers are not disadvantaged relative to the rest of the world in terms of their ability to source foreign capital and participate in consolidation if global developments see a trend towards the removal of foreign ownership limits.

Qantas welcomes the Government's proposed removal of the 25 percent and 35 percent limits on foreign ownership by a single foreign entity and by airlines in total respectively under the Qantas Sale Act.

The removal of these restrictions would not only place Qantas in an equitable position with other Australian international carriers but, more importantly, would improve opportunities to participate in cross-border industry consolidation and strategic alliances.

There are a number of safeguards which governments could put in place to ensure that Australian carriers remain ‘Australian’ in the absence of foreign ownership restrictions.

For example, requirements similar to those under the Qantas Sale Act relating to key aspects of the business such as operational headquarters and proportion of locally based employees could be introduced.

The Government’s proposal to continue to pursue designation based on principal place of business in Australia’s bilateral agreements is supported by Qantas. The shift to this criterion is an important foundation for the inevitable removal of nationality-based tests in the longer term. It is a trend already apparent in the EU.

Skills for the services sector

While the Government recognises that Australia’s aviation industry is contingent upon a highly skilled workforce, we believe that some of the policy settings could be fine-tuned to reflect this important correlation.

Aviation training within the educational framework

Three key aviation occupations – pilots, air traffic control and engineers – are highly skilled, requiring a substantial level of personal investment and long lead-time to proficiency. Lack of investment in the ongoing development of these skills would place the aviation industry at a disadvantage when needing to source these business critical skills directly from the marketplace at a qualified level.

Air Traffic Controllers

The skill sets needed to support future air traffic management will change significantly with advanced automation. The ICAO Global Air Traffic Management Strategic Plan as well as regional and State plans will drive these needs. The emphasis in skill requirement will move from Air Traffic Control (ATC) to Air Traffic Management (ATM). Recent controller staffing issues have highlighted the need to be proactive in training and the need for broader operating endorsements.

Skilling Australia for the future

Qantas strongly supports the Government’s Skilling Australia for the Future initiative as a mechanism to address skills shortages and increase workforce productivity through the Productivity Places Program (PPP) and role of Industry Skills Councils (ISCs). However, in our view there are some opportunities to enhance further the framework to deliver better outcomes for the aviation industry.

Qantas welcomes the funding made available through the PPP initiative and our ability to access national funding has to date been encouraging. However, our experience has found the dual system of both state and national funding streams to be complex.

Although Qantas recognises the vital role that the states and territories play in respect of education and training, we believe that large, national organisations would benefit from a centralised funding body. A national body would allow a single point of contact for industry for information on timeframes and plans to allocate funding, increasing the efficiency and coordination of this activity.

The Qantas Group's workforce encompasses a range of roles from highly skilled pilots and aircraft maintenance engineers, to management and IT professionals, cabin crew and customer service, to chefs and forklift drivers.

Due to its diversity, the Group could potentially be represented on a number of ISCs including – Agri-Food, Manufacturing Skills Australia (MSA), Transport and Logistics, Innovation and Business Skills Australia (IBSA) and Service Skills Australia.

The ISCs are structured to ensure a direct link to industry and we have found this to be an effective framework in the case of maintenance engineers - a specialist employee group that is represented by MSA.

However, the disparate nature of the sectors and occupations that coexist within the Group mean that many are not so clearly aligned with a single ISC.

The Qantas Group would welcome the ability to continue to coordinate the skills and training needs of all other groups, excluding maintenance engineers, through one ISC such as IBSA.

Conclusion

The Qantas Group's ability to maintain a sustainable business and deliver an ongoing contribution to the Australian economy as a major services exporter depends significantly on a national commitment to value the contribution of the services sector as whole. Valuing the services sector requires making conscious efforts to nurture it. If that occurs, we can be confident about growing our business in the longer term regardless of the current financial environment.