

Towards a National Aviation Policy Statement

Submission by

the Department of Foreign Affairs and Trade

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Declaration: The Department of Foreign Affairs and Trade provides foreign and trade policy advice to the Government. The department works with other government agencies to ensure that Australia's pursuit of its global, regional and bilateral interests is coordinated effectively.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
1. THE AUSTRALIAN AVIATION INDUSTRY	3
1.1 AVIATION EXPORTS	3
<i>Exports of aircraft and components</i>	<i>4</i>
1.2 EXPORTERS AND THE AVIATION INDUSTRY	5
1.3 THE AVIATION INDUSTRY AND CLIMATE CHANGE	9
2. INTERNATIONAL AIR SERVICES AGREEMENTS.....	10
2.1 AVIATION AND THE WORLD TRADE ORGANIZATION	10
2.2 AUSTRALIA'S INTERNATIONAL AIR SERVICES AGREEMENTS	11
<i>The European Union.....</i>	<i>16</i>
<i>The United States of America.....</i>	<i>16</i>
<i>South-East Asia.....</i>	<i>16</i>
<i>North Asia.....</i>	<i>17</i>
<i>Pacific Island Countries</i>	<i>17</i>
<i>Latin America</i>	<i>18</i>
3. SECURITY ISSUES.....	18
4. CONCLUSION	20

EXECUTIVE SUMMARY

- . The Government's trade policy is based on two pillars: opening up new markets through international trade negotiations; and improving productivity and competitiveness behind the border. Both of these pillars are important for the aviation sector.
- . The aviation sector provides a vital link between Australia and the world for the movement of both people and goods.
- . Aviation is an important export industry for Australia, with short-term visitors spending around \$5.5 billion on long distance transportation by Australian service providers in 2006-07.
- . The services provided by the aviation sector are also crucial to the performance of a number of other export industries. Australian and foreign airlines brought 5.6 million short-term visitors to Australia in 2006-07 and those visitors consumed \$22.4 billion worth of goods and services while in Australia. In total, more than 23 million passengers travelled to or from Australia by air in the year to May 2008.
- . Air freight is essential for accessing export markets: in 2007 air transport carried \$28 billion worth of goods to overseas markets. Exports of Australian-produced aircraft and components were worth \$354 million.
- . The liberalisation of international air services has benefited the Australian economy and opened up new markets for Australian airlines. Liberalisation allows more services to be provided, facilitates competition between airlines and provides significant benefits for Australian consumers, tourist operators and exporters.
- . Aviation security should be a key focus in the development of the National Aviation Policy Statement. Any lessening of Australia's high aviation security standards would have serious implications for Australia's national security as well as for public confidence in the safety of Australia's aviation services.

1. THE AUSTRALIAN AVIATION INDUSTRY

International air services connect Australia to the world. Millions of passengers travel on airline services to Australia each year, generating billions of dollars in export earnings. Air freight services are also essential for the export of many goods from Australia, particularly high value and time critical goods.

International air services also help foster important people-to-people links between Australia and other countries. Regular, reliable and cost-effective air services facilitate business, cultural and scientific exchanges between people, helping deepen Australia's relations with bilateral partners.

1.1 Aviation exports

Aviation is an important export industry for Australia. In the year to May 2008 Australian-designated airlines – including Qantas, Jetstar and Pacific Blue – carried 34.6 per cent (or more than 8 million) of the 23.2 million passengers that travelled to and from Australia. The Australian Bureau of Statistics (ABS) estimates that in 2006-2007 short-term arrivals¹ in Australia spent more than \$5.5 billion on long distance passenger transportation by Australian service providers, almost all of which would have been spent on air fares.

Australia has also become a growing exporter of aviation-related services in recent years. These are services other than the transport of people and goods by airlines and include the provision of technical assistance and flight training services.

Examples of successful Australian exporters of aviation-related services

Aviation Compliance Solutions is one of a small number of audit organisations accredited by the International Air Transport Association to conduct aviation operational safety audits for airlines. The company's audits cover areas such as flight operations, safety management, aircraft maintenance, cabin safety, cargo and ground handling, flight planning and security. It has conducted audits for 65 per cent of China's airlines – including Air China - and is active in attempting to secure an even greater market share in China.

Flight Training Adelaide: Flight Training Adelaide is another example of a successful aviation-related services exporter. The South Australian college provides professional airline pilot training for many of the world's leading airlines, including Qantas, Cathay Pacific Airways, China Airlines, Emirates, JAL Express, Air China, Vietnam Airlines and Dragon Air.

¹ The ABS defines a short-term arrival as a foreign citizen who visits Australia for a period of less than twelve months. The 2006-2007 Financial Year is the latest for which data is available on consumption by international visitors.

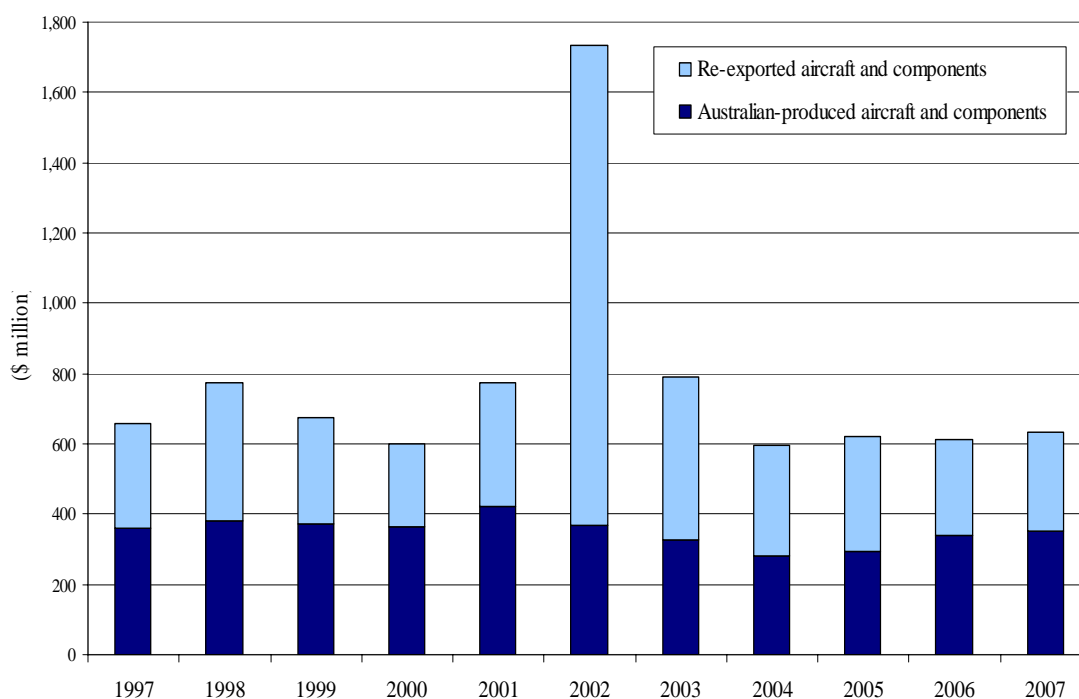
Aviation-related service exports are not separately identified in the statistics published by the ABS. However, anecdotal evidence suggests that a number of firms that began by providing services to the domestic aviation industry are now achieving considerable success in international markets. In particular, Australia's skilled flight educators, large amounts of available airspace and high quality aviation infrastructure have enabled it to become a successful provider of flight training services.

With continuing growth in international aviation expected notwithstanding recent rises in fuel prices, there is considerable potential for further expansion in the value of Australia's, aviation-related services exports. For instance, the rapid growth of new low-cost airlines in the Asia-Pacific is creating strong demand for Australian pilot training services.

Exports of aircraft and components

Australia's exports of aircraft and components amounted to \$630 million in 2007. However, this figure includes the re-export of aircraft and components parts that have previously been imported into Australia. Re-exported goods make up a large proportion of Australia's exports of aircraft and components, partly because Australia operates as a maintenance and distribution centre but also because of the relatively high value of commercial aircraft that are sold overseas or returned to their lessors after use in Australia. This can be seen in chart 1 which shows the value of aircraft and component exports that are produced in Australia and those that are re-exported after being previously imported into Australia. Following the collapse of Ansett in late 2001, Australia re-exported \$1.366 billion in aircraft and components in 2002.

Chart 1: Exports of Aircraft and Equipment 1997–2007

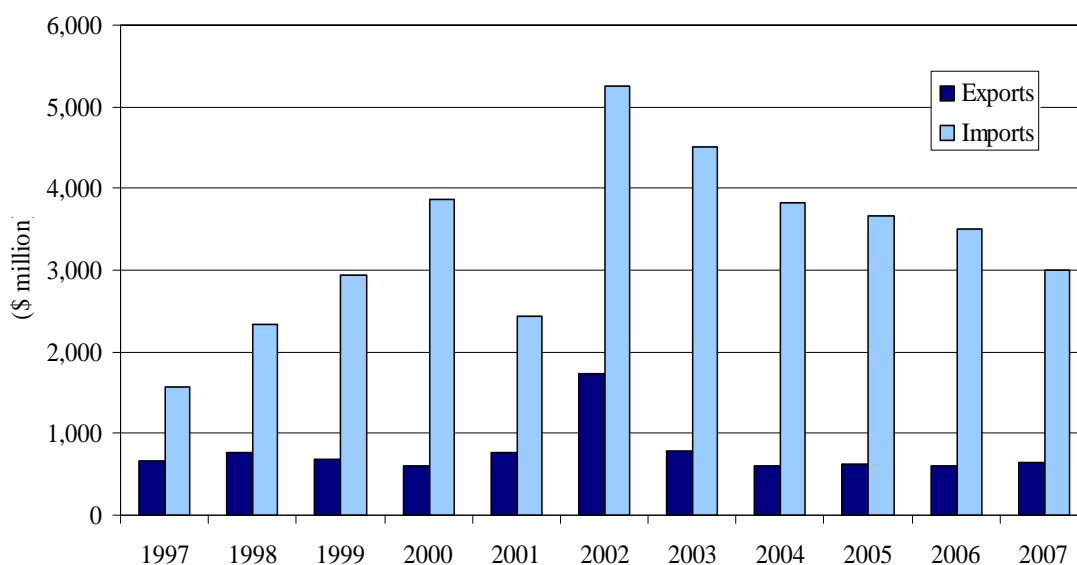


Source: DFAT Stars database

Australian exports of aircraft and components are substantial, with Australian-produced exports amounting to \$353 million in 2007, and make a significant contribution to the Australian economy. However, Australia relies on imported aircraft for the overwhelming majority of its aircraft and components.

Chart 2 shows that Australia’s imports of aircraft and components grew rapidly in the late 1990s as the economy grew and airlines expanded. This growth was interrupted in 2001, but resumed in 2002 as other airlines expanded to fill the gap created by Ansett’s collapse. Since then the value of imported aircraft and components has declined, but it remains well in excess of the value of exports.

Chart 2: Exports and imports of Aircraft and Equipment 1997–2007



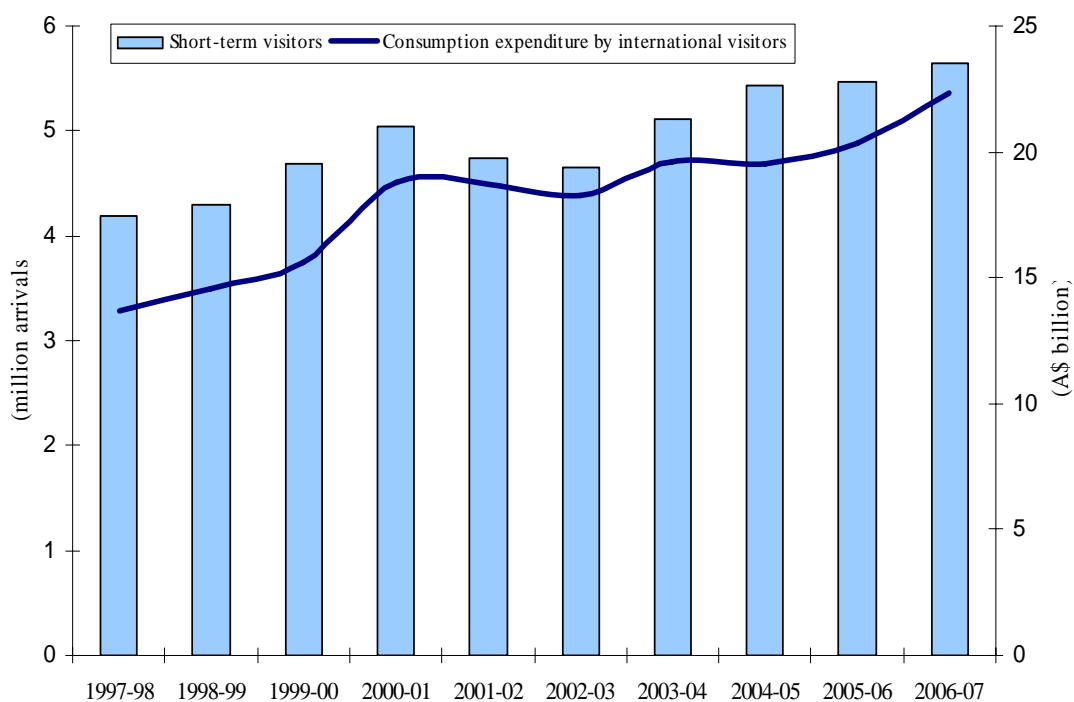
Source: DFAT Stars database

1.2 Exporters and the aviation industry

The aviation industry is a substantial export industry in its own right, but the services it provides are also crucial to the success of a range of other export industries. The critical importance of regular and cost-effective international air services to the Australian tourism industry is probably the clearest example of this. However, safe, reliable and cost-effective air services are also essential for many other industries.

There were 5.64 million short-term visitors to Australia in 2007, the vast majority of whom travelled by air. This number has grown steadily in the last fifteen years as international air travel has become more affordable and real incomes have risen.

Chart 3 Short-term Visitors and Consumption by International Visitors



Source: ABS 3401.0 and ABS 5249.0

As Chart 3 shows, the growth in the number of short-term visitors to Australia has led to a corresponding increase in the value of expenditure by tourists and other visitors. In 2006-07 expenditure by short-term visitors amounted to \$22.4 billion. Table 1 provides a breakdown of this expenditure, highlighting the importance of expenditure by short-term visitors to a range of industries.

Table 1: Consumption by International Visitors (A\$ million)

	2003-04	2004-05	2005-06	2006-07
Tourism characteristic products				
Travel agency and tour operator services	265	270	254	243
Taxi fares	202	191	202	230
Long distance passenger transportation	5,154	5,383	5,294	5,514
Motor vehicle hire and lease	303	291	348	404
Accommodation services	2,428	2,370	2,681	3,139
Takeaway and restaurant meals (b)	1,757	1,717	1,745	1,942
Shopping (including gifts and souvenirs)	2,413	2,371	2,281	2,495
<i>Total tourism characteristic products</i>	12,523	12,593	12,805	13,967
Tourism connected products				
Local area passenger transportation	331	327	318	331
Repair and maintenance of motor vehicles	18	21	25	23
Fuel (petrol, diesel)	234	257	309	351
Food products	1,390	1,370	1,426	1,656
Alcoholic beverages and other beverages	685	664	692	806
Motor vehicles, caravans, boats, etc.	175	199	350	318
Recreational, cultural and sports services	460	389	365	403
Gambling and betting services	203	161	135	151
Education	2,221	2,180	2,433	2,818
Actual and imputed rent on holiday houses	374	408	444	469
<i>Total tourism connected products</i>	6,092	5,976	6,498	7,326
Other tourism goods and services	978	990	1,046	1,057
Consumption by international visitors	19,592	19,560	20,349	22,350

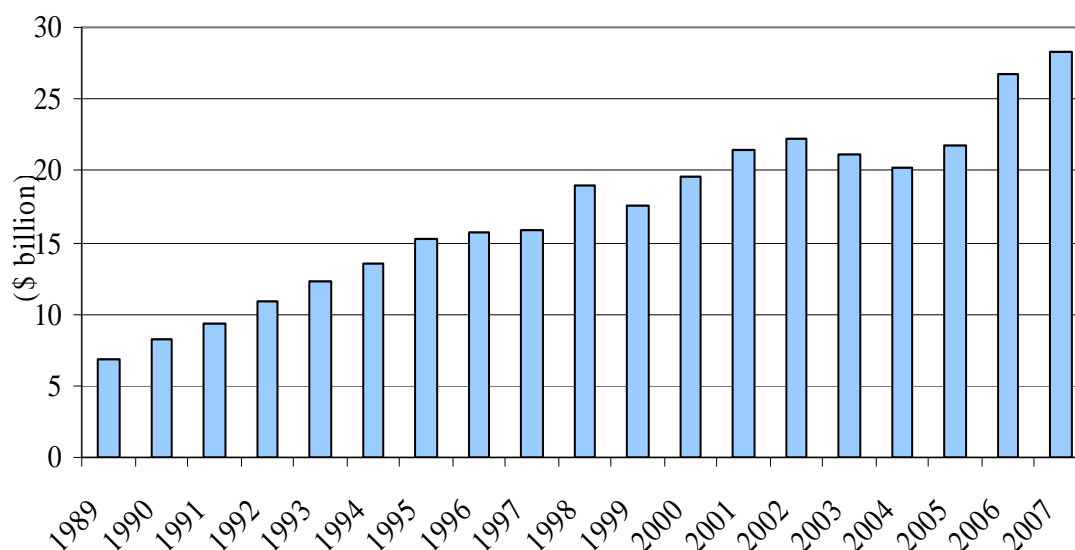
Source: *Trade in Services 2006-2007*, DFAT, drawing on ABS 5249.0

Air freight for merchandise exports

The air freight services provided by the aviation industry give Australian exporters essential access to overseas markets. In 2007 air freight carried over \$28 billion in Australian products to export markets. Some 17 per cent of Australia's merchandise exports (by value) were carried by air, up from 14.5 per cent in 1989.

While most of Australia's exports are transported by sea, air freight is often the preferred means of transport for less bulky, high value products and is essential for time-sensitive products such as seafood. This reflects the imperative for timely delivery of these products, often for use in complex production and distribution networks.

Chart 4: Value of exports transported by air, 1989-2007



Source: DFAT Stars database

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Table 2: Top ten goods exports transported by air, 2007

Export	Value (\$m)
Non-monetary gold*	12,185
Medicaments (incl. veterinary)	2,922
Confidential items ⁺	736
Measuring and controlling instruments	644
Computers	542
Medical instruments	539
Telecommunications equipment	521
Computer parts	467
Miscellaneous manufactures	452
Crustaceans	430

Source: DFAT STARS Database

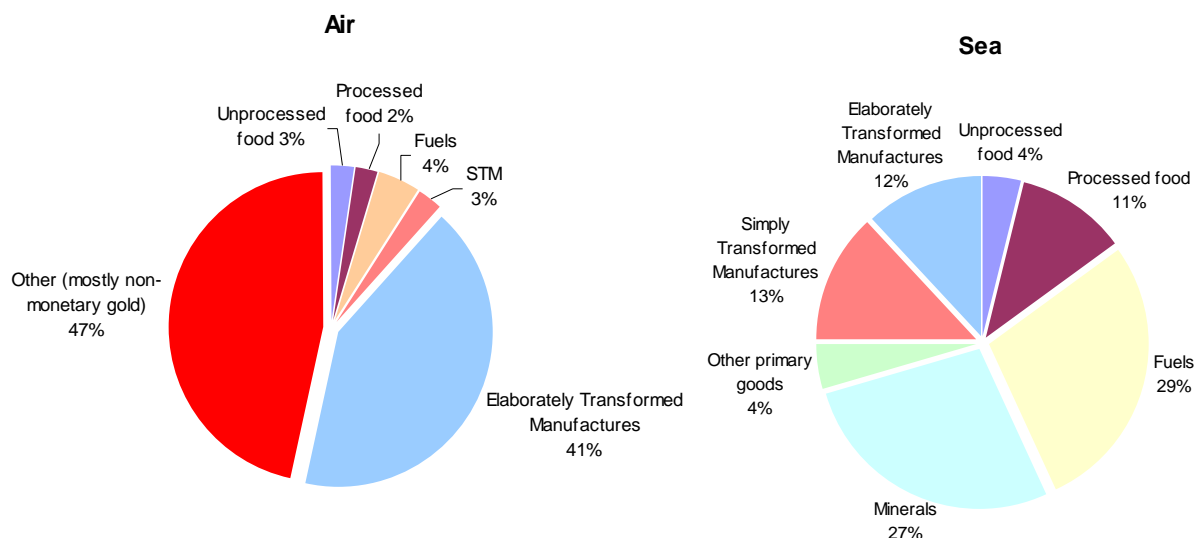
Note: Table does not include \$1.2 billion in refined petroleum through refuelling of foreign-registered aircraft in Australia or \$515 million in aircraft and parts exports.

* May also include other goods for processing.

⁺ Mainly diamonds.

Table 2 shows the top ten goods exports transported by air in 2007, with non-monetary gold accounting for around 40 per cent of exports transported by air in value terms in 2007. Chart 5, which divides exports transported by air and sea into broad categories, shows that the majority of exports transported by air are high value-added goods. Elaborately transformed manufactures (ETM) accounted for 41 per cent of goods exported by air in 2007. The total value of ETM exports transported by air was \$11.7 billion, amounting to 42 per cent of the value of all ETM exports.

Chart 5: Exports transported by air and sea in 2007
Share of total value by broad category



Source: DFAT STARS Database

Note: Minerals and other goods exports by air not included as each are below 1%.

1.3 The aviation industry and climate change

The global aviation industry accounts for around 2 per cent of total greenhouse gas emissions, with the proportion expected to increase over the medium term in line with projected growth in the international aviation market.

The domestic aviation industry is included in the draft emissions trading scheme outlined in the Government's Green Paper on a Carbon Pollution Reduction Scheme. Other responses to the challenge posed by aviation emissions include existing voluntary schemes to offset the emissions associated with flights, improvements in fuel efficiency, emissions reductions in new aircraft and international cooperation to reduce aviation emissions.

In our region, Australia has taken a lead in the establishment of the Asia Pacific Economic Cooperation (APEC) Aviation Emissions Task Force. This Task Force has been established following strong interest from APEC economies in cooperating on practical measures to reduce aviation emissions. The Task Force is chaired by New Zealand, with support from Australia. Australia is also active in efforts in the International Civil Aviation Organization (ICAO) to develop a Program of Action on international aviation emissions.

In international negotiations, it will be important to ensure that measures to limit greenhouse gas emissions from trans-national flights do not unfairly disadvantage Australian carriers and export industries such as tourism that depend on them.

2. INTERNATIONAL AIR SERVICES AGREEMENTS

For most of the increasing range of services that are supplied across national borders, trade is permitted unless governments place specific restrictions or limitations on their import or export. However, air transport services are unique in that airlines are only permitted to provide international services if the governments of the relevant countries have first agreed that they can do so.

The basic framework for the regulation of international aviation is contained in the 1944 Convention on International Civil Aviation (also known as the Chicago Convention). In June 2008 the Chicago Convention had 190 contracting parties, including Australia and all of Australia's aviation partners.

Article VI of the Convention states that

no scheduled international air service may be operated over or into the territory of a contracting State, except with the special permission or other authorization of that State, and in accordance with the terms of such permission or authorization.

This creates a legal requirement for the negotiation of international agreements between countries that want to allow airlines to operate services between them. It also gives governments the right to specify conditions or restrictions on the operation of services.

Since the entry into force of the Chicago Convention, an extensive network of international air services agreements has developed between countries. The vast majority of agreements are bilateral, although there are also a growing number of multilateral air services agreements. Each agreement sets out the conditions under which airlines can operate in the territory of other states that are contracting parties to the Convention. These conditions can include limitations on the number of flights that can be operated between countries, the airports to which those flights can fly to and restrictions on the ultimate destination of those flights.

2.1 Aviation and the World Trade Organization

International trade in most services is regulated by the General Agreement on Trade in Services (GATS), an agreement between members of the World Trade Organization (WTO) in which each member makes specific undertakings on the degree of access that foreign service providers will enjoy in their market. However, because of the existence of the Chicago Convention and its separate system of regulating international air services, air transport services are not covered by the GATS and WTO members do not negotiate commitments in relation to air transport services in the WTO.

Ancillary services to aviation are, however, covered by the GATS and WTO members do negotiate commitments on market access and national treatment in relation to ancillary aviation services in the WTO. The ancillary services to air transport that are covered by the GATS include aircraft repair and maintenance, the selling and marketing of air transport services and computer reservation system services. Australia advocates greater international liberalisation of these ancillary services in the WTO and a number of countries have made offers in the Doha Round negotiations on these services.

2.2 Australia's international air services agreements

Australia has international air services agreements or associated arrangements with 67 countries (as of June 2008). Since 1999 Australia's policy has been to liberalise international air services by negotiating so-called 'open skies' agreements with aviation partners that remove restrictions on the number and capacity of services that can be operated between countries. Where it is not possible to conclude an open skies agreement with other countries, the Government has sought to negotiate agreements that provide Australian airlines and airlines from aviation partners with access to routes and destinations ahead of passenger demand.

The removal of restrictions on flights between countries allows airlines to compete with each other on the basis of a range of factors, including price, convenience, destination and quality of service. Such competition provides substantial benefits for consumers and industries which rely on the aviation industry to transport their products or customers.

In its 1999 report on International Air Services the Productivity Commission noted:

The constraints on competition and trade in the bilateral regulation of international air services have significant, largely adverse, effects on airlines, users and the economy. The introduction of greater competition has led to substantial economic welfare gains, not just in Australia, but also overseas. On balance, liberalisation of trade and investment in international air services is likely to bring substantial benefits to consumers, tourism and other industries reliant on international aviation as well as efficient airlines.²

Other studies, such as the InterVISTAS-ga² study in 2006, have also found that the liberalisation of international air services can provide substantial economic benefits.³ This study examined a number of examples of air services liberalisation, concluding that "there is little doubt that liberalization of aviation bilateral air services agreements, and the deregulation of domestic aviation markets, has brought substantial benefits to economies and consumers"⁴.

² Productivity Commission, *International Air Services Inquiry Report*, Productivity Commission, Canberra, 1999, p207.

³ InterVISTAS-ga², *The Economic Impact of Air Service Liberalization* (InterVISTAS-ga², Washington DC, 2006). Available on the internet at http://www.intervistas.com/4/reports/2006-06-07_EconomicImpactOfAirServiceLiberalization_FinalReport.pdf).

⁴ InterVISTAS-ga², 95.

The economic benefits of air services liberalisation extend far beyond the aviation sector. There are substantial potential cost benefits for exporters using air freight services, especially for exporters of high-value added and time sensitive goods that depend on air freight. There is also evidence that the availability of air services can attract investment and encourage the establishment of new businesses.⁵

Governments can facilitate competition in the provision of air services by negotiating air services agreements which reduce the regulatory constraints on airlines (see box). Historically, the liberalisation of international air services has lagged well behind the liberalisation of merchandise trade, and that of other services. Nonetheless, the pace of international air services liberalisation is increasing, with many countries replacing old agreements with far-less restrictive agreements that allow for greater competition.

Liberalising international air services

The liberalisation of international trade is a key objective of Australia's trade policy, along with improving competition, innovation and productivity behind the border.

As air transport services are governed by the Chicago Convention and not covered by the WTO's General Agreement on Trade in Services, the liberalisation of air transport services requires the renegotiating bilateral air services agreements to reduce the number and scope of restrictions placed on airlines.

The most basic means of liberalising air services is by removing restrictions on the number of carriers that governments can designate to operate services between the parties to air services agreement. Early air services agreements often restricted the right to provide services to national carriers. Increasingly, however, air services agreements allow governments to designate additional airlines and since 1992 Australia has included provisions for multiple designation in all of its new air services agreements.

Another important way of liberalising air services is by expanding the number and capacity of flights that are permitted between countries (known as third and fourth freedom rights). Air services agreements can include limitations on the capacity, frequency, routes and tariffs (fares) of flights between countries. Agreements which remove these restrictions are commonly referred to as 'open skies' agreements. Such agreements allow carriers to compete on the basis of price, convenience, destination, quality of service and other factors, lowering costs for passengers and freight users.

Increasingly, open skies agreements are also removing restrictions on intermediate and beyond rights (also know as fifth freedom rights). These restrictions prevent airlines from carrying passengers between the other party to an agreement and a third country (beyond rights) or between the two parties to an agreement via a third country (intermediate rights). The removal of these restrictions not only allows greater competition between the parties to the agreement, but also between the parties and third countries.

⁵ InterVISTAS-ga², 86-89.

Australia has negotiated a number of ‘open skies’ agreements since 1999, including with the United Kingdom and the United States. As a result of these and other agreements, there are no longer any limits on the number of services that can be operated between Australia and our four largest individual markets: New Zealand, the United Kingdom, the United States and Singapore.

Nevertheless, restrictions do remain on the operation of air services, even under Australia’s open skies agreements with the United Kingdom and the United States. For example, the agreements do not allow foreign carriers to carry domestic passengers within Australia (known as ‘cabotage’).

It is not the norm for cabotage rights to be granted to foreign carriers, even in open skies agreements. However, it is becoming more common, especially in relation to cargo services. In fact, Australia has removed all restrictions, including cabotage, on the operation of aviation services with New Zealand since the creation of the Single Aviation Market in 1996.

Including the reciprocal exchange of cabotage rights in Australia’s international air services agreement could increase the level of competition on some domestic routes, providing benefits for consumers and businesses (including exporters). Realising the full economic benefits would, however, be contingent on negotiating partners agreeing to an exchange of cabotage rights.

In recent years Australia has not traded access for foreign airlines beyond Australia to the United States. This has prevented foreign airlines from operating services and limited the level of competition on flights between Australia and the United States, a key route for the Australian tourism industry as well as Australian consumers and businesses. It may also have affected the rights that Australia has been able to obtain for Australian airlines. In this context, consideration could be given in the future to the benefits and costs of allowing foreign airlines to operate services between Australia and the United States, possibly in exchange for access for Australian airlines to fly beyond hubs in Asia and the Middle East to key markets in Europe and North America.

Since 1999 Australia has allowed foreign investors to own up to 100 per cent of Australian domestic airlines (other than Qantas and subject to approval by the Foreign Investment Review Board). This has allowed foreign airlines such as Virgin and Tiger Airways to establish Australian domestic airlines, which have increased significantly the amount of competition on domestic routes and provided substantial benefits to consumers and other industries.

However, restrictions remain on the ownership of airlines that provide international services. Foreign-owned airlines are not permitted to provide international services in accordance with Australian air services agreements, even if they are based in Australia and subject to the same regulation as Australian-owned airlines. This is because the *Air Navigation Act 1920* limits the airlines which may be designated under Australia’s air services agreements to airlines that have foreign ownership of 49 per cent or less.

The ownership requirement of the *Air Navigation Act 1920* reflects the provisions of air services agreements negotiated before 1999. These agreements limit the designation of airlines entitled to operate services under the agreement to those which are 'substantially owned and effectively controlled' by the parties to the agreement or their citizens.

Since 1999, however, Australia has pursued a policy of using 'principal place of business and regulatory control' as the criteria for designation and 18 of Australia's agreements now use these criteria. This approach has the potential to increase competition on international routes to and from Australia by expanding the number of carriers that are able to operate services under Australia's air services agreements. However, so long as the *Air Navigation Act 1920* continues to restrict designation to airlines that have foreign ownership of 49 per cent or less, Australian-based airlines with majority foreign ownership will not be permitted to operate international services under Australian air services agreements.

To date, there have not been any foreign owned airlines based in Australia that have sought to operate such services. However, with the establishment of several foreign-owned but Australian-based domestic airlines in recent years the potential for this to occur in the future is increasing.

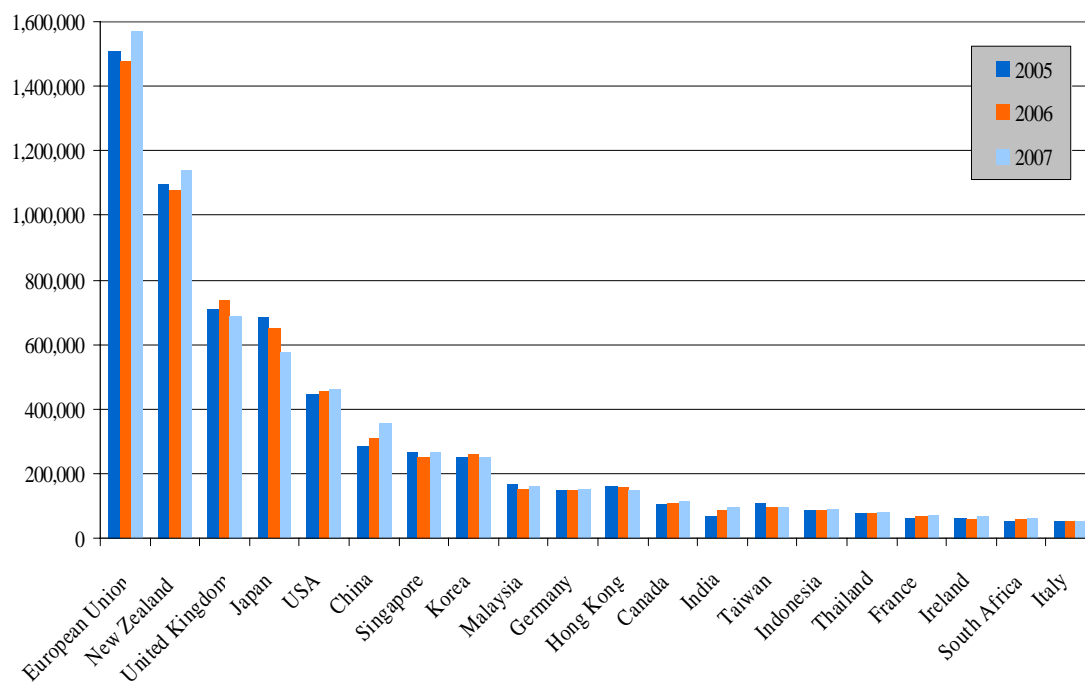
The *Qantas Sale Act 1992* limits foreign ownership of Qantas to 49 per cent. It also restricts the proportion of Qantas' equity that can be held by any single foreign investor to 25 per cent and the proportion that can be acquired by other airlines to 35 per cent. While these restrictions do not prevent Qantas from operating services under Australia's air services agreements, they do limit the company's ability to access foreign capital. According to Qantas, its cost of capital is higher than it would otherwise be and it faces a competitive disadvantage relative to other international airlines.

The negotiation in recent years of the European Union Common Aviation Market and the Multilateral Agreement on Liberalisation of International Air Services (MALIAT) reflect growing interest in reciprocal and multilateral open skies agreements. Regional institutions in the Asia-Pacific, including the Association of South-East Asian Nations and the Pacific Islands Forum, have also expressed interest in developing multilateral air services agreements involving their members. These multilateral agreements reflect a move away from the traditional bilateral model. They deliver considerable gains through both scale and liberalisation and Australia should examine carefully the potential benefits they provide. Where it is in Australia's interest to do so, Australia could seek to either join or gain access to the markets they create.

To summarise, it is important for Australia to continue to seek the most liberal outcomes possible in the negotiation of bilateral air services agreements as the potential benefits to consumers, exporters (especially the tourism industry) and the economy as a whole are substantial. Australia should also be open to the possibility of joining multilateral air services agreements where they will benefit Australia.

In terms of priorities for the negotiation of future air services agreements, it will be important for Australia to continue to be guided by the demands of consumers, tourists and exporters. Chart 6 shows the residency of short-term arrivals in Australia. As the overwhelming majority of short-term visitors travel by air, this provides a good indication of the sources of demand for international air services to Australia.

Chart 6: Short-term arrivals by top 20 markets of origin, 2005 – 2007



Source: ABS 3401.0 Note: China data does not include SARs and Taiwan; EU data is approximate, as data is not available for short-term arrivals from every EU Member.

The Department of Infrastructure, Transport, Regional Development and Local Government is responsible for the negotiation of international air service agreements between Australia and other countries. However, as the agreements can have important implications for Australia’s foreign policy and trade interests, the Department of Foreign Affairs and Trade takes a close interest in the negotiations and supports them through its network of overseas posts.

Comments on international air services between Australia and selected countries or regions are provided below.

The European Union

In June 2008 the European Union (EU) agreed to a mandate to negotiate a Comprehensive or 'Vertical' Air Services Agreement with Australia, in response to a longstanding Australian request. The liberalised air services arrangements (for both passengers and cargo) that would result from such an agreement would result in significant commercial benefits for both parties, along with closer, more broad-based engagement between Australia and the EU. The EU is Australia's largest trading and investment partner and, outside the agricultural sector, there are relatively few impediments to strengthening the relationship between Australia and the EU.

The United States of America

Australia and the United States concluded an 'Open Skies' Aviation Agreement in February 2008. The agreement advances our national aviation and broader economic interests by further liberalising air services with the US. Airlines can now determine the frequency, capacity and preferred routes of their air services and previous restrictions limiting new airlines to four guaranteed services per week have been lifted. The agreement provides for more liberal leasing and code-share arrangements and streamlines cargo-only services by allowing Australian and US providers to operate from each others' country to a third country without having to pass through their home country en route, that is seventh freedoms for freight services.

The increased market access accorded by the agreement lends certainty to Australian airlines to plan into the future and widen their service network of US cities. It further benefits travellers, trade and tourism as new airlines are encouraged to enter the market, thereby increasing competition and providing new employment opportunities in the aviation and tourism industries. The US is Australia's third largest aviation market with nearly 2 million people travelling between the two countries in the year to April 2008. Of these, just over 52 per cent were Australian.

South-East Asia

Aviation is a key issue in the bilateral relationships between Australia and many countries in South-East Asia. Singapore, for example, has placed considerable importance on gaining access to the trans-Pacific route (Sydney-Los Angeles) and has raised its interest at ministerial level.

Passenger air services also provide an important means of maintaining the people-to-people links between Australia and countries in the region. Singapore, Malaysia, Indonesia and Thailand are among the top twenty sources of short-term visitors to Australia, with increased air services in recent years facilitating the significant contribution these visitors make to the Australian economy through tourism, education, and the consumption of other services.

North Asia

North Asia is a key market for Australian airlines and the Australian tourism industry. While there has been a decline in short-term visitors from Japan in recent years, it remains our third-largest source of short-term visitors. China is now Australia's fifth largest country source of short-term visitors, and the potential for further growth as the Chinese economy expands is strong. It will be important for Australia to continue to liberalise Australia's air services agreements with the countries of North Asia and to negotiate capacity ahead of demand.

Pacific Island Countries

Australia has bilateral air services agreements with the Cook Islands, Fiji, Nauru, Niue, Palau, Papua New Guinea, Samoa, the Solomon Islands, Tonga and Vanuatu. Australia's aviation policy is significant for Pacific island countries and will be increasingly important in strengthening economic growth, regional integration and trade liberalisation, all of which are essential to regional development.

In recent years, tourism has been a regional success story, to which the Australian aviation industry has contributed significantly by providing a range of services to and within the region. Tourism and aviation have thus strengthened and diversified links between Australia and Pacific island countries. Several Pacific island countries are enjoying the benefits of addressing constraints to tourism, such as transport costs, security and infrastructure. It is vital that Australia's aviation policies continue to encourage and provide an enabling environment for continued reform in the Pacific.

Since 2005 the aviation sector in the Pacific has been revitalised through increased liberalisation, competition provided by new carriers and airline mergers. New entrants to Pacific aviation have included low-cost carriers such as Pacific Blue and Polynesian Blue. With small fleet sizes and passenger loads servicing often remote Pacific destinations, airlines are also recognising the benefits of partnerships in which airlines operate services on behalf of each other, including the management of spare parts, holiday marketing programs and frequent flyer programs. Papua New Guinea, Samoa and Tonga now have more frequent and competitively-priced international services, while competition has also led to lower fares, more passengers and more tourists to Fiji and Vanuatu.

Air Services Australia (ASA) also provides important air navigation services to the region. Its responsibilities in the Pacific include providing air traffic management and aviation rescue as well as fire fighting services relating to the safety of air navigation both in and outside Australia.

Through subsidiary Airservices Pacific Incorporated, ASA has, since 2005, provided air traffic control services for control towers in Lihue, Kona and Molokai in Hawaii, Saipan in the Commonwealth of the Northern Mariana Islands, and Guam. Its contract with the US Federal Aviation Administration expires in September 2009; ASA advises that a decision on whether to re-bid for the contract will be made towards the end of 2008.

ASA provides air traffic services in airspace above 15,000 feet on behalf of the Solomon Islands Government and in airspace above 24,500 feet on behalf of the Government of the Republic of Nauru. The services are provided from ASA's Brisbane Air Traffic Services Centre in accordance with International Civil Aviation Organization (ICAO) standards and the Australian Manual of Air Traffic Services. The contracts under which these services are provided expires in 2013.

In May 2008 Airservices Australia signed a Memorandum of Cooperation with Papua New Guinea's (PNG's) newly formed air traffic service provider PNG Air Services Limited to facilitate projects and activities designed to build the country's sustainable capability. Other major projects currently in the planning phase include:

- an upgrade of PNG's air traffic management system so that it is compatible with and connected to other regional systems;
- the deployment of automatic dependant surveillance – broadcast ground stations and subsequent regional sharing of surveillance data;
- assistance with aviation rescue and fire fighting management; and
- training through an Interagency Working Group chaired by the Department of Infrastructure, Transport, Regional Development and Local Government.

Latin America

Australia's economic and people-to-people links with Latin America are growing steadily. However, the paucity of direct air routes and lack of competition (leading to high costs and low seat availability) has arguably inhibited this growth. While it is a matter for airlines to judge the commercial viability of particular routes, Australia should, where it can, encourage and facilitate stronger aviation connections with Latin America. The recent conclusion of a new air services agreement with Brazil in July 2008 substantially liberalises the existing air services arrangements and provides new opportunities for carriers to expand their services between the two countries. Australia could also seek to update its air services arrangements with other Latin American countries, including Chile and Peru, with a view to liberalising existing arrangements.

3. SECURITY ISSUES

Aviation security should remain a key focus for the Australian government and aviation industry. As noted above, the Australian aviation industry is growing rapidly, with changes in technology and ever-increasing passenger numbers. While the immediate loss of life, trauma and damage would be devastating, the wider economic and social impact of a terrorist attack would also be extremely significant given the importance of the tourism sector and secure transport infrastructure to our economy. Moreover, there remain very high community expectations of the Government's commitment to ensuring public safety and maintaining national security.

As the Australian market for air travel grows, so too does the range of carriers. With low-cost carriers utilising secondary airports entering the Australian market, the Government will need to ensure appropriate security standards are maintained both here and abroad to address an expanding terrorist risk to planes and passengers. Comprehensive security measures will continue to be necessary to address the very real terrorist threats to Australian aviation, including those stemming from the risk of hijacking, improvised explosive devices attacks or the threat of illicit non-state party use of man-portable air defence systems (MANPADS). This includes maintaining high level security screening of both passenger and freight aviation services. The establishment of a “single window” for cargo processing through the Enhanced Trade Solutions package being developed by the Australian Customs Service will have important implications for air cargo security.

As a direct response to the changed global security environment following the September 11 attacks in the United States, the Australian Government worked in close cooperation with key security partners to actively encourage other countries to address the global terrorist threat, including to civil aviation. In other related steps, Australia implemented an Air Security Officer (ASO) program to provide armed, undercover officers to protect Australian carriers on selected domestic and international flights.

Australia has also cooperated with key countries to develop a Passenger Name Record (PNR) to allow pre-screening of passengers flying into Australia and other partner countries. It has also enhanced other border security, enforcement and legislative measures. For example, on 1 July 2008 Australia and the EU reached an Agreement on PNR, which will allow for information about travellers flying into Australia on airlines using EU-based IT service providers to be disclosed to Australian Customs officials. The agreement is vital for facilitating passenger arrival clearances and for border security at airports in Australia, and is a welcome, concrete outcome of the close engagement between Australia and the EU.

Any lessening of our commitment to tackling the terrorist threat in general, or specifically to the aviation sector, would also likely impact upon Australia’s foreign policy credentials given the clear priority we have identified in being a leader in global and regional counter-terrorism efforts. An international best practice approach to aviation security gives us credibility in encouraging other regional and international partners to implement more effective counter-terrorism regimes, including in areas beyond civil aviation. Effective Australian advocacy for better international security standards bolsters protective measures for Australian citizens and businesses abroad. Australia is also obliged to make its best efforts to combat terrorism through various multilateral, regional and bilateral mechanisms. This includes our commitments under relevant United Nations Security Council resolutions and the United Nations’ Global Counter-Terrorism Strategy. Additionally, some bilateral civil aviation arrangements are predicated on Australia maintaining agreed standards of civil aviation security, meaning there would be potentially significant commercial impacts if we are judged to have fallen short of the mark. Clearly, there would be significant foreign policy implications of any lessening of Australia’s commitment to the very highest standards of aviation security.

4. CONCLUSION

International aviation is of central importance to Australia and its relationship with the world. Millions of passengers are carried to and from Australia each year on international airline services. This helps to generate billions of dollars in goods and services exports, with international visitors contributing \$22.4 billion to the Australian economy in 2007.

The aviation industry is also vital for Australian exporters, carrying high value, time critical goods to a wide range of overseas markets. In 2007 more than \$28 billion of merchandise exports, or around 17 per cent of all merchandise exports, were transported by air.

There has been considerable progress in liberalising Australia's international air services through the negotiation of 'open skies' agreements with key aviation partners and the relaxation or removal of capacity and other restrictions on air services with many other countries. This has increased competition and ultimately resulted in increased passenger numbers as well as more frequent services.

Despite this, restrictions remain and there is considerable scope to further liberalise international air services between Australia and the rest of the world. This would allow more services to be provided, facilitate competition between airlines and provide significant benefits for Australian consumers, tourist operators and exporters.

Security should continue to be a key priority in Australia's aviation policy. Australia is a leader in global and regional counter-terrorism efforts, and our international best practice approach to aviation security gives us credibility in encouraging other regional and international partners to implement more effective counter-terrorism regimes, including in areas beyond civil aviation. Australia is also obliged to make its best efforts to combat terrorism through various multilateral, regional and bilateral mechanisms. As a result, any lessening of Australia's commitment to the very highest standards of aviation security would have significant foreign policy implications as well as risk public confidence in the safety of Australia's aviation industry.