



Australian Government
Attorney-General's Department

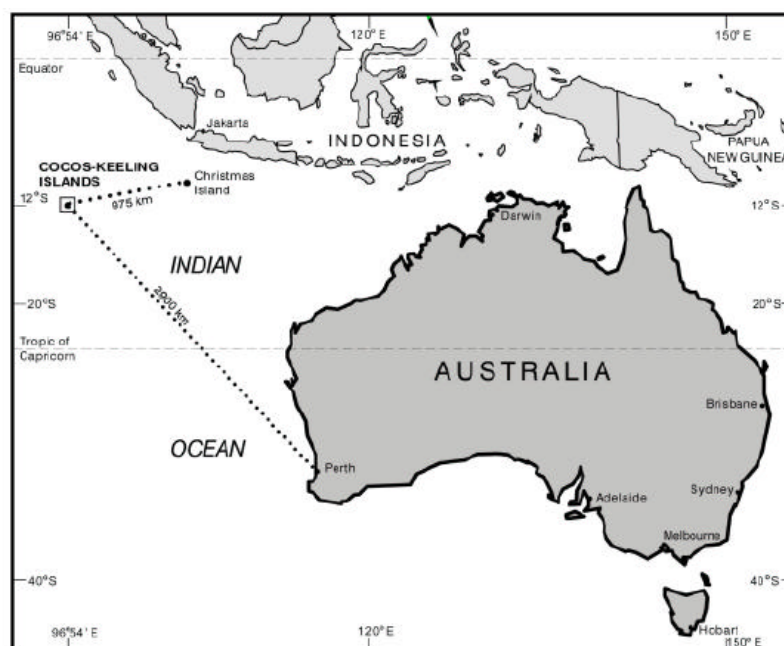
AVIATION POLICY AND THE INDIAN OCEAN TERRITORIES
SUBMISSION TO THE
NATIONAL AVIATION POLICY STATEMENT

Territories and Native Title Division
Attorney-General's Department
June 2008

That an exemption be granted to allow foreign airlines to operate a loop between Christmas Island, the Cocos (Keeling) Islands and destinations in South East Asia.

Background

The Indian Ocean Territories (IOT) of Christmas Island and the Cocos (Keeling) Islands are non-self governing territories of Australia. Christmas Island is located approximately 2,600 kilometres north-west of Perth and 360 kilometres south of Java and has a population of approximately 1350. The Cocos (Keeling) Islands are located approximately 2,770 kilometres north-west of Perth and 900 kilometres south-west of Christmas Island and have a population of approximately 570.



2. Air services are a vital transport link for the IOT. Air freight delivers mail, perishable and other time-sensitive goods. Air is the sole method of passenger travel. Air transport is a major economic driver and is used for the delivery of many government services.
3. The IOT's primary air link is south to Perth. National Jet Systems operates twice weekly between Perth, Christmas Island and the Cocos (Keeling) Islands. The service alternates between a clockwise and anti-clockwise loop. A return economy air fare from Perth to the IOT is **\$2,048**.
4. The southern air link is the only passenger service between the IOT and mainland Australia. It is used by government service providers, domestic tourists and IOT residents visiting the mainland. The southern link is used for the regular delivery of mail and air freight. It is used for patients travelling to Perth for routine medical care and, in some cases, for medical evacuations.

5. Christmas Island also receives a weekly flight from Kuala Lumpur, Malaysia. This flight is operated by Malaysia Airlines. It replaced a service operated by Austasia Airlines between Singapore and Christmas Island. The Austasia Airlines service operated from 2 February 2006 until 31 May 2008, when it ceased for financial reasons. A return economy airfare from Kuala Lumpur to Christmas Island is **\$840**.
6. The northern air link is an important economic driver for Christmas Island. It is a short flight from South East Asia to Christmas Island and this service is used predominantly by international tourists and business travellers. This flight carries a significant amount of freight and provides essential access to international markets.
7. Demand for the northern route varies widely depending on a number of factors. Many Christmas Islanders travel to South East Asia for Chinese New Year and other cultural holidays. Incoming tourist numbers increase for events such as Bird Week and during holiday periods. Business travel levels often reflect the specific projects being carried out on Christmas Island. The construction of the Immigration Detention Centre between 2002 and 2007 provided a significant boost to business travel on this route.
8. The northern link between the IOT and South East Asia will continue to play an important role in the development of the IOT communities. The IOT have considerable strategic value for the Australian Government. Maintaining healthy and vibrant communities in the IOT is an essential step in safeguarding this interest.
9. The flight between Christmas Island and South East Asia provides economic opportunities for the Island, particularly in tourism and other service industries. As the IOT move away from reliance on phosphate mining for economic stability, these industries will become more important and provide a greater proportion of local employment.
10. The northern flight also allows IOT residents to maintain cultural links with South East Asia. Sixty percent of the IOT population have family, social and cultural links with South East Asia. Many speak Malay or Chinese as a first language.

Government Support

11. The policy of successive Australian Governments has been to provide the IOT communities with access to a similar range and quality of services as are available in remote communities in mainland Australia. As part of this policy, the Government supports the development of sustainable economies in the IOT.

12. As air transport plays a significant role in both economic development and service delivery in the IOT, the Australian Government provides infrastructure for these services. The Government owns airports on Christmas Island and the Cocos (Keeling) Islands, which are operated under contract by Forte Airport Management. The Government also provides a range of ground equipment to assist airlines servicing the IOT.

13. Since 1997, the Australian Government has also offered financial support for air services to the IOT. The Government underwrites the southern air link through a contract with National Jet Systems. The contract allows for the Government to provide funding to National Jet Systems if its profit from this service falls below a set level. This policy is consistent with Australian Government support for other remote air services on the mainland. It is also consistent with Western Australian Government subsidies for intra-state air services to remote WA communities.

14. The contract with National Jet Systems is due to expire on 31 March 2009. As part of the re-tendering process, the Government is considering whether additional financial support could be provided for the northern air link. Given the varying commercial viability of this link and its importance for the IOT economies, this is a prudent option to consider.

Cabotage

15. The current Australian Government aviation policy prevents foreign air carriers from operating domestic services. This prohibition includes operating a loop between Christmas Island, the Cocos (Keeling) Islands and any destination in South East Asia.

16. The Government is seeking to ensure the operation of the northern air link is sustainable and reliable. There are few domestic Australian airlines that operate internationally and are capable or interested in flying this route. To ensure a regular service is maintained, it is vital that major regional airlines are able to fly this route, regardless of their ownership.

17. The Attorney-General's Department proposes that an exemption to the current policy be created to allow foreign airlines to fly between Christmas Island, the Cocos (Keeling) Islands and destinations in South East Asia.

18. There are a range of factors which justify an exemption of this nature:

- a. The IOT's distance from mainland Australia and proximity to South East Asia make them unique remote communities. No Australian communities are further removed from the mainland and yet closer to major South East Asian centres. A northern air link provides cheaper and more convenient travel than its southern counterpart. For these reasons, it is the preferred choice for many business travellers and tourists.
- b. The IOT's remoteness and status as "external territories" effectively separate them from other domestic air services. The IOT enjoy different quarantine and customs status to mainland Australia. They are GST and excise free. Flights from mainland Australia to the IOT depart from the international terminal of Perth airport and are subject to similar processing to international flights. Passengers travelling from mainland Australia to the IOT are required to complete outgoing passenger cards, just as if they were travelling to another country.
- c. A failure of the northern air link would have significant detrimental effects on the IOT communities. Economic activity in the IOT would be significantly reduced, particularly in the tourism sector. The IOT would be cut-off from South East Asian and other international markets. Air freight would be limited to the capacity of the southern air link and people travelling to South East Asia would have to fly via Perth, making travel prohibitively expensive.
- d. An exemption would be consistent with Australian Government policies to support air services to remote communities where these would not ordinarily be commercially viable. The Government currently provides financial support for services to many remote communities. Financial support may not be sufficient to sustain a northern air link to the IOT as many airlines are ineligible to fly this route.

Increasing the number of airlines eligible to fly this route would effectively complement financial support for a northern link.

- e. The inability of individual sectors to support air services indicate they should be combined to ensure a more reliable service. For example, a regular flight between South East Asia and the Cocos (Keeling) Islands is unlikely to generate sufficient demand to remain profitable. If this route were combined with a service to Christmas Island, the combined demand of both destinations would be more likely to realise a viable service.
- f. The inability of Australian carriers to provide this route suggests consideration should be given to allowing foreign carriers access. Regional international airlines are better placed to provide this service as it is likely that an aircraft operating the northern link will be based in South East Asia.
- g. Traditional justifications for cabotage restrictions do not readily apply to the IOT. For example, the safety considerations that prevent foreign carriers from operating domestic routes do not have practical consequences for the IOT. The same airline and aircraft that operates the northern link to Christmas Island is also entitled to operate a direct flight to the Cocos (Keeling) Islands.