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The Department of Infrastructure,
Transport, Regional Development
and Local Government,
GPO Box 594
Canberra ACT 2601

ATEC submission to the development of an Aviation White Paper

About ATEC

The Australian Tourism Export Council (ATEC) has represented the Australian inbound tourism industry for more than 30 years. We are a national industry association based in Sydney with nine state and regional branches.

ATEC has two core functions: the first is to provide business-to-business services to companies selling Australian tourism services to global markets. This typically involves matching tourism service suppliers around Australia with the wholesale agents and online distributors who sell Australian tourism to foreign customers. These customers can be other wholesale distributors, retail travel agents or individual customers.

Our second core function is to represent the interests of the inbound tourism supply chain on behalf of our members. ATEC's membership reflects the broader structure of the Australian tourism industry. While we do have a small number of larger corporations, such as the Qantas Group, Japan Airlines and a number of airports, the majority of our members are SMEs. Amongst our membership we also count more than 40 Regional Tourism Organisations from across Australia who collectively represent hundreds of tourism suppliers. ATEC includes in its structure a number of industry advisory panels, such as the Japan Policy Panel, the Asian Tourism Advisory Panel, the Backpacker Tourism Advisory Panel (which functions as the national industry body for the backpacker industry) and the newly-formed Health and Well-being Travel Advisory Panel.

ATEC is a member of the National Tourism Alliance and the Australian Services Roundtable and is also an affiliate member of the World Tourism Organisation (UNWTO) and the Pacific Asia Travel Association (PATA).

It should also be noted that ATEC's Managing Director has been appointed to the Government's Industry Advisory Panel for the development of a tourism strategy and that ATEC participates in the National Tourism Aviation Advisory Committee.

the voice of inbound tourism

The White Paper

ATEC endorses the Commonwealth Government's development on an Aviation White Paper. For the purposes of the Discussion Paper, we have confined our comments to Chapter 1. ATEC's individual members (such as airlines and airports) are more qualified to supply responses on strict aviation issues. We have confined ourselves to responses in-principle and look forward to providing more detailed responses to the Green Paper.

The "tourism industry"

We believe it is important during the development of the White Paper that the Government understands the division between the "aviation sector" and the "tourism industry". While a somewhat artificial division, to understand our submission it is useful to define the "aviation sector" as airlines and airports and the "tourism industry" as those service providers travellers encounter once they leave the airport.

It is fashionable for some stakeholders and commentators, either deliberately or through naiveté, to purport that the tourism industry and the aviation sector are indivisible and therefore what is to the benefit of one is automatically to the benefit of the other. While this *is* generally the case it is not *always* so, and we believe that those who subscribe to this theory do not understand the operational reality of the tourism industry – some special features of which we will attempt to describe below. There will be always a robust "chicken and the egg" argument over whether the tourism industry drives aviation activity or *visa-versa*. It appears to ATEC that at times external commentators give more weight to the interests of the large entities in the aviation sector than smaller tourism companies.

Some broad principles

The following broad principles express the views of ATEC's Board:

- There can be no doubt that the best model for the global aviation sector would be a free global market with no barriers to access and with all airlines (and airports) operating under similar and transparent commercial structures.
- It is entirely regrettable that since the Second World War the market has been distorted by trade barriers, the use of airlines as instruments of national policy and the subsidisation of airlines by various national funding instruments.
- Because of its relative remoteness from major source markets and the major distances within Australia between major gateway ports and significant Australian tourism destinations, it could be argued that Australia is more reliant upon efficient, reliable and sustainable air access for the long-term success and survival of its tourism industry than any other country.

- In this environment a rapid unilateral move by Australia to “open skies” would lead to an upheaval in the short term, as new entrants “cherry-pick” profitable routes (with a strong business travel mix) to the possible detriment of less-profitable routes with a stronger leisure travel mix.
- Nevertheless ATEC supports competition in aviation markets insofar as it leads to *sustainable* benefits for the tourism industry. Therefore notwithstanding the risk noted above, ATEC supports the progressive liberalisation of our aviation markets.
- The Australian tourism industry is very lucky to be served by two outstanding national airline groups which have maintained commercial viability despite operating on a strict commercial basis and given the difficult global climate since September 11, 2001. The Qantas Group, in particular, has demonstrated over many years a commitment to the development of the Australian tourism industry which straddles the artificial divide of the tourism industry and the aviation sector discussed earlier. By assisting with the movement of people such as visiting journalists, travel agents and industry professionals, by sponsoring tourism events and national tourism promotions, and by attending even the most mundane meeting of tourism professionals, Qantas has become a critical factor in the success of the Australian tourism industry. While the industry’s relationship with Qantas is at times robust, it is nevertheless always respectful. It is our view therefore that any decision on aviation policy needs to be mindful of, if not subject to, the commercial interests of Qantas (and Virgin Blue).
- One thing which is often overlooked is the unique and critical role that Qantas plays in promoting Australia’s “national brand” to world markets. It could be argued that “the flying Kangaroo” is as critical to our national branding as is, for example, the Swiss Cross. Further, in “V-Australia” we welcome the entry of an exciting new brand for Australian tourism. To that end, while supporting the sustainable liberalisation of Australia’s airspace, it is ATEC’s view that the Australian Government should vigorously pursue liberal access to foreign markets on behalf of the Qantas Group and the Virgin Group.
- In addition to recognising the support of the Australian tourism industry provided by the Qantas Group and V-Australia, ATEC welcomes the participation in Australia of many foreign carriers. Some of these, such as Japan Airlines, British Airways, Air New Zealand, Singapore International Airlines, Royal Thai and United Airlines have been committed to Australia for decades. We also welcome the entry of new carriers, mainly from Asia, the Americas and the GCC, and “low-cost” carriers from the Asia-Pacific region. Since the 1990s we have seen a withdrawal of services to Australia by numerous European airlines, whose role in carrying European visitors to Australia has been replaced by Gulf- and Asian-based carriers. A sustainable competitive mix of profitable national and foreign carriers is critical to the future of Australia’s tourism industry.

- ATEC is yet to be convinced of the need for a second international airport within or outside the Sydney basin. We are concerned that the significant public and private sector investment required would be passed on to the traveller while at the same time eroding public support for the tourism sector. We further do not believe the case can be sustained when there is no clear agreement on Sydney Airports' operational limit. Further, global experience in regional airport development sustains a strong argument that market forces should be allowed to operate with respect to the further development of Newcastle and Canberra airports. To this end, ATEC also supports the investigation by the Western Australian Government into whether market forces would support a domestic and international-capable airport for the Margaret River region, and fully endorses the ongoing process for Broome International Airport to develop a service to Singapore.
- It is the policy of ATEC not to comment on the commercial arrangements of its members. Nevertheless, as noted above, a commercially-sustainable Qantas is a critical element of the health of the Australian tourism industry, and if the Qantas Sale Act is an impediment to Qantas' future profitability then ATEC would not object to its amendment.

"Open skies" and tourism

As noted earlier it is commonplace for some commentators and self-interested parties to make broad assumptions about the interrelationship between the aviation sector and the tourism industry. Statements to the effect that "open skies would be good for tourism" are often used.

While in the broadest sense, and in the longer term, this statement may be true (witness for example the rapid development of the Queensland tourism industry in the 1980's following significant increases in aviation capacity), a rapid and unilateral movement by Australia would be likely to cause disruption in the tourism supply-chain in the short to medium term. This would be particularly so if "open skies" were to be accompanied by rapid re-allocation of airline capacity to fewer routes as airlines attempted to capture a dominant market-share. As we have seen in the past, a "dump" of capacity on high-yield routes is likely to lead to commensurate withdrawal from less-profitable routes.

The capacity of the tourism industry to respond to rapid re-allocation in aviation capacity is hampered by the following characteristics:

- Most tourism businesses are SMEs with limited capital reserves available to respond rapidly to dynamic shifts in distribution.
- As an asset class, tourism is underdeveloped and therefore is limited in its capacity to rapidly access further investment or debt mechanisms to cope with rapid market change. Increased volatility in markets is likely to increase the risk-profile of the sector and therefore make access to debt and equity more problematic.

- Major tourism investments are often located in regions remote from major gateways (e.g. The Kimberley, Central Australia, Whitsunday Islands) but which provide a significant contribution to the Australian appeal and experience. They are disproportionately reliant upon and vulnerable to significant changes in airline schedules.
- In the traditional travel distribution channels (travel agents and wholesalers selling packages), scheduling is critical and requires some certainty in aviation services. The global “travel year” operates on 1 April and once packages are in the market place they cannot be varied without great difficulty and financial penalty, if at all. This has recently been exacerbated by tighter consumer laws in foreign markets (particularly the E.U.), which oblige travel agents to provide the services they have sold to the customer, with civil or sometimes criminal action resulting from non-delivery of advertised services.
- Those tourism businesses which have invested (at great expense for an SME) in online sales strategies also require some certainty in aviation access.

For these reasons, ATEC does not favour a rapid, unilateral and comprehensive liberalisation of our skies. Our concerns in this regard are not theoretical. For example, at the time of writing tourism operators in Queensland are coping with major disruption to their services as a result of significant domestic and international schedule changes announced by Qantas in response to rising fuel costs. Similar disruptions were encountered following September 11 (which saw the progressive withdrawal of international carriers to Australia), the collapse of Ansett and the pilot’s strike.

We therefore prefer staged and sustainable liberalisation which allows SMEs, investors and airlines time to adjust and to allow them to minimise disruption and maintain profitability. We repeat that the sustainable liberalisation of Australian skies should be accompanied by an equally sustained effort by the Australian Government to achieve greater foreign market access for national carriers.

Thank you for the opportunity to respond to the Commonwealth’s Discussion Paper. We look forward to responding in more detail to the Green Paper.

Yours sincerely,



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Managing Director