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Aviation Strategy, Aviation and Airports
Department of Infrastructure, Transport,
Regional Development and Local Government
GPO Box 594
Canberra ACT 2601
Australia

To Whom It May Concern:

I note that the Australian Government is soliciting opinions to form a National Aviation Policy Statement (NAPS).

I appreciate the opportunity to contribute my views and analysis to this debate.

I hope and give permission for this document to be uploaded in full to the Department's website. It is my wish that my submission will educate people and highlight various points that are worth substantial consideration.

I hope the Australian Government's NAPS will be a progressive one that benefits the national interest.

Yours sincerely

Khoa C. Huynh (Mr.)

SUBMISSION

Comment on the Australian Government's
National Aviation Policy Statement White Paper

Khoa Chuong Huynh (Mr.)

Introduction

- 1** The Hon Anthony Albanese MP rightly highlighted in his foreword how crucial the aviation industry is to Australia's economy¹. For a country that is so distant from the rest of the world, aviation has not only facilitated Australia's development, but has been a means for the rest of the world to come to Australia and better understand its culture and its people. Businesses rely on aviation to effectively conduct their affairs in Australia to serve a population of over 21 million. Similarly, aviation has allowed Australians to develop as worldly people who are aware of other societies and of opportunities for growth, industry and trade.
- 1.1 It is commendable that the Minister has allowed both industry entities and the public to comment on the future of Australia's aviation policy. I hope that my submission will go some way to highlighting the thus missed opportunities and dismissing some untrue notions that have surrounded issues including international air services rights.

¹ Towards a National Aviation Policy Statement, Department of Infrastructure, Transport, Regional Development and Local Government, 10 April 2008, <http://www.infrastructure.gov.au/aviation/nap/files/AviationIPapril2008.pdf>

Challenging some Notions

2 Australia now has two main international airlines in the form of Qantas and V Australia. Qantas is an established full-service airline while V Australia is scheduled to commence operations in December 2008.

2.1 Myth: Liberalising International Air Rights Runs Counter to Australia's National Interest

It has been argued by some, especially in the Australian airline industry, that the liberalisation of international air rights works against the national interest.

The vast majority of frameworks that govern air transport are bilateral air services agreements (ASAs) which grant airlines rights to operate between countries. These agreements which are cultivated by negotiation between governments have generally not kept up with changes in the aviation industry. More worrying, ASAs (apart from ASAs which advocate Open Skies) restrict market forces in the industry and the ability for airlines to cater to demand where they see fit.

2.1.1 Evidence of the Benefits of Air Liberalisation

A study by InterVISTAS-ga² for sponsors including the IATA and Boeing Company stated that there appears to be a causal relationship between liberalisation of air services and economic growth. Increased air services and subsequent traffic leads to economic and job growth for an economy².

The results of liberalisation have been well-documented and can be seen in action. For example, the establishment of a single European market has led to a phenomenal growth in low-cost airlines and consumer choice. Air travel is now within the reach of the many due to cheaper air fares which has stimulated tourism. Business travel is also very convenient due to the competitive pressures on fares and schedule in the European market. Most airlines, particularly full-service carriers, have risen to this challenge and rationalised their cost-base for future growth and sustainability. Where an airline has not been able to meet this

² The Economic Impact of Air Service Liberalisation, InterVISTAS-ga², Page 37,
http://www.intervistas.com/4/reports/2006-06-07_EconomicImpactOfAirServiceLiberalization_FinalReport.pdf

challenge, market forces have naturally led the industry towards consolidation as seen by the takeover of Swiss International Air Lines by Deutsche Lufthansa.

The positive impact of liberalisation is supported by quantitative analysis. The European Commission in 2002 published a study showing that the liberalisation of air rights in the U.S.A – E.U. single market brought benefits of US\$8.1 billion in output and US\$5.2 billion worth of benefits manifested in lower air fares³. On a smaller scale, Denver International Airport found that the impact of a single flight to Asia was US\$142 million.

Australia together with New Zealand has also embraced Open Skies with regards to the Trans-Tasman market since 2002 which came after the Single Aviation Market (SAM) agreement in 1996. During the period 1994 to 2004, the compound annual growth rate (CAGR) of passengers between major cities in Australia and New Zealand was 7.1%⁴. Traffic between non-major cities in the two countries has outperformed with a CAGR of 14.5%, albeit from a lower base.

The Trans-Tasman route is another good example of how liberalisation benefits travellers, the economy in general and also the incumbent airlines⁵. Air New Zealand and Qantas continue to dominate the route but have adapted their fares and service offerings to meet changing demand. In addition, competition has spurred these airlines to focus on cost-efficient management. Finally, both corporate and leisure travellers have more choice and access to cheaper air fares which stimulates travel and the facilitation of business. In fact, liberalisation of the market has allowed traffic to be “56% higher than it would have been in the absence of any liberalisation”⁶ or over 1.7 million passengers per annum. The study states that as a result, the “GDP of each country grew by US\$726 million”⁶.

The theoretical, empirical and real-life evidence shows that liberalisation of ASAs offers a country many positive outcomes: increased passenger traffic; increased economic output through many factors including job creation and tourism revenue; an additional factor to induce economic expansion; increased consumer choice in terms of fares and frequencies; and a generally more competitive air

³ The Economic Impact of Air Service Liberalisation, InterVISTAS-ga², Page 42,

⁴ The Economic Impact of Air Service Liberalisation, InterVISTAS-ga², Page 75

⁵ The Economic Impact of Air Service Liberalisation, InterVISTAS-ga², Page 76

⁶ The Economic Impact of Air Service Liberalisation, InterVISTAS-ga², Page 77

travel market which encourages both sustainable demand and cost-efficiency on the part of airlines.

2.1.2 Qantas' Rebuttal to Air Liberalisation

In its submission to the White Paper, Qantas Airways (Qantas) states that "when there is a clear and usable commercial value in the trade for Australian carriers"⁷.

Where it states "Australian carriers", it is not a stretch to argue that this would vastly relate to the Qantas Group (comprising of Qantas and JetStar).

It is generally accepted that increased tourism revenue for Australia is beneficial and indirect benefits are also shared among various industries. The idea that Australia should only grant air services rights when Qantas Group can benefit is an extraordinary one.

Qantas elaborates by stating that it "would prefer to see opportunities for growth and new entry retained for current and future Australian carriers in the first instance"⁸.

One can infer from these two statements that opportunities to increase tourism and business through new air routes and frequencies should only preferably occur as and when Qantas Group is ready to engage in growth.

Qantas' real objectives and stance has been shown for all to see. The airline's parochial interests are diametrically opposed to the interests of Australian consumers and industries that indirectly or directly depend on air transport, particularly tourism.

Under a guise of doom, Qantas is advocating less competition, not more; higher, sustainable inflated air fares, not lower prices. Such a stance is surely misplaced in today's society. Qantas is certainly not automatically a victim of liberalisation. As shown above, the evidence points towards the opposite with a stimulated market growing the pie for all.

⁷ Towards a National Aviation Policy Statement, Qantas Airways Limited (Qantas Submission), http://www.infrastructure.gov.au/aviation/nap/files/Qantas_rev.pdf, Page 9

⁸ Qantas Submission, Page 37

A timetable of air liberalisation and distribution of benefits to the Australian economy that caters to the needs of a single private entity is simply unacceptable. The opportunity cost of past governments' *de facto* protectionism of Qantas has hurt Australian consumers, the Australian tourism industry and the Australian economy as a whole in terms of missed growth and job creation.

Qantas' stance on this matter does not reflect that of the national interest. Protectionism and/or the lack of air liberalisation is a cost that Australians and the Australian economy should not have to bear for the benefit of a single private entity. The evidence is overwhelmingly in favour of air liberalisation and Australians should reap the benefits of it.

2.2 **Myth: Any Liberalisation of Air Rights must be Reciprocated with Air Rights that can Immediately be Taken Advantage of by Australian Air Carriers**

In a letter to 'The Age' newspaper dated 23 February 2006⁹, Geoff Dixon, CEO of Qantas inferred that the granting of transpacific air rights should not occur because carriers of Australia do not have access to third-countries.

He cited the bilateral aviation agreement between Australia and France as one reason. Currently, airlines of Australia can only operate three times weekly to France.

For Australia's tourism industry to have to wait for air rights to France to benefit from genuine transpacific competition seems to be a bizarre standpoint. Furthermore, it is not the fault of third-party countries that carriers do not have more liberal air rights to France. Such a circumstance may well arise from poor negotiating by interested parties, including Qantas' Government Relations department.

In contrast, the Governments of the United Arab Emirates¹⁰ and Singapore¹¹ operate a policy of open skies that welcome all airlines and air transport competition, irrespective of whether their home airlines benefit from new air links or not.

⁹ Qantas Not Afraid of Competition, Geoff Dixon, The Age, <http://www.theage.com.au/news/business/qantas-not-afraid-of-competition/2006/02/22/1140563859637.html>

¹⁰ Emirates – A Flight of Fortune, Emirates Airline, <http://mediacentre.ekgroup.com/CSFront.asp?TYPE=FACT&csID=1&sid=288>

¹¹ Aviation Policy, Ministry of Transport – Singapore Government, <http://www.mot.gov.sg/airtransport/policy.htm>

Australia's national interest and ability to take advantage of enhanced air transportation links with foreign countries should not be held hostage by the lack of progress in negotiations with others.

2.3 **Myth: Qantas' International Market Share has Declined – It is Being Weakened**

Qantas Group's international market share has declined from around 40% at privatisation¹² to 31.7% as of 2007¹³.

However, the above statistic hides the fact that Qantas international passengers have increased from 5598545 in 2000 to 6106682 in 2007, up 9.1%. The total number of international passengers for Australia has increased from 16.5 million in calendar year 2000 to 22.7 million in 2007, a 27% growth.

Specifically on the 'Kangaroo Route' between Australia and Europe (Frankfurt and London as Qantas no longer flies to Paris), Qantas' passenger numbers have grown from 513321 in 2000 to 599064 in 2007, an increase of 16.7%.

More impressive is the traffic growth Qantas has experienced between Australia and the USA. In 2000, the airline flew 782052 passengers while in 2007 it carried 1097310 – an increase of 40%.

Qantas is certainly not being weakened by international competition. In fact, the international air transport market has grown and Qantas has taken advantage of that growth.

In statements related to its half-year results to 31 December 2007, the airline experienced "a strong revenue environment", "strongly performing full service and leisure brands", "strong domestic and international demand" and is "well positioned to meet ongoing challenges, including fuel prices and competitor capacity growth"¹⁴.

With a first-half profit of A\$905 million and full-year 2007/2008 profit expected to be 40% higher than the previous comparable year, Qantas certainly is an airline that can hold its own.

¹² Qantas Submission, Page 33

¹³ BITRE Aviation Statistics – International Scheduled Air Transport 2007, Bureau of Infrastructure, Transport and Regional Economics, <http://www.bitre.gov.au/publications/04/Files/CY07.pdf>

¹⁴ Qantas Announces Record Profit for the Half-Year Ended 31 December 2007, Qantas Airways Limited, <http://www.qantas.com.au/infodetail/about/investors/2007HYMediaRelease.pdf>

Aside from its statements of doom whenever the subject of competition arises, Qantas can still compete effectively with competition on the transpacific route, or any route where liberalisation can occur, for the benefit of Australia's national interests, including travellers, businesses and visitors.

2.4 **Myth: Certain Competitors are Agents of their Respective Governments, Supported or Subsidised by their Respective Governments and Unfairly have Access to Cheaper Resources**

The subject of government ownership and control of airlines is a hotly-debated one. Qantas has previously claimed that such airlines such as Emirates and Singapore Airlines have unfair advantages with regards to depreciation, taxation and even fuel. It has implied that these advantages are unfair and in the case of Singapore Airlines, should negate the possibility of allowing it the chance to fly between Australia and the USA¹⁵.

Taking Singapore Airlines as an example, the corporate tax rate in Singapore is 18%¹⁶. Corporate tax disparities among countries are not new, even among economically close nations such as the Eurozone. Indeed, the UAE has a 0% corporate tax rate¹⁷.

Qantas has also berated Singapore and the UAE's depreciation rules with regards to capital equipment, specifically aircraft¹⁸. Again, these accounting rules are followed not only by airlines but also every company who is registered in those two countries, including Qantas Group's own Singaporean subsidiary Orangestar Investment Holdings Pte Limited (trading as Jetstar Asia).

Finally, with respect to Singapore Airlines, there is no evidence to suggest that the Government of Singapore manages the airline that participates in anti-competitive practices that distort the industry and the markets that it serves. On the contrary, Singapore Airlines is recognised as a prudently run airline company that has never posted a full-year loss by virtue of "rigorous cost control" and "superior service standards" that

¹⁵ Development of a New Industry Policy Statement, Qantas Airways Limited, Page 8 – 9, http://www.innovation.gov.au/Documents/Qantas_revise20061005164618.pdf

¹⁶ Tax Rates & Tax Exemption Schemes, Inland Revenue Authority of Singapore, <http://www.iras.gov.sg/irasHome/page03.aspx?id=410>

¹⁷ Qantas Submission, page 68

¹⁸ Qantas Submission, page 68

are its “winning formula”¹⁹. It does not benefit from favourable tax or depreciation rates vis-à-vis other Singaporean companies and acts within the rules and regulations of both its home market and in the markets in which it operates.

Differences in accounting rules and tax rates across differing countries are not a recent phenomenon. Qantas would do well to ameliorate its own business environment than disparage the corporate regimes in other countries that embrace a free and open market. In fact, the author posits that previous comments by Qantas executives regarding certain airlines have bordered on being slander.

2.5 Myth: Singapore Airlines Flying Transpacific between Australia and the USA is not a “natural” routing²⁰

This is a particularly weak argument and can apply to any third party airline, not just Singapore Airlines.

In the age of greater globalisation and interdependency among nations with regards to trade, the origin of a product is of little relevance. Pharmaceuticals arrive in Australia from a variety of companies. BHP Billiton, an Australian mining company, has significant operations in South Africa²¹.

It can also be argued that Qantas flies some non-natural routes. QF025 is a flight from Melbourne to Los Angeles via Auckland, New Zealand with a ‘great circle’²² distance of 13111km. QF093 flies from Melbourne to Los Angeles for 12748km non-stop. If one followed Qantas’ ‘logic’, then surely QF025 seems an illogically routed flight.

Citing non-natural routings makes no comment on an airline’s ability to be able to serve a certain route effectively. Furthermore, it does not consider an array of benefits including increased competition, increased flight frequencies, the product a new airline may bring, and the indirect advantages to the economy as a whole.

¹⁹ Airline of the Year, Air Transport World, February 2008, Page 28

²⁰ Qantas Submission, page 38

²¹ BHP Billiton Energy Coal South Africa Limited,

<http://www.bhpbilliton.com/bb/ourBusinesses/energyCoal/bhpBillitonEnergyCoalSouthAfricaLimited.jsp>

²² Great circle is the shortest distance between two points on a sphere (such as the Earth).

Clutching at an atlas and extolling the movements of the world's continents from the age of Pangaea is not an appropriate economic argument, especially when the potential opportunity cost is born by the national interest, not the advocate.

2.6 Myth: The Transpacific Route is already Well-Served

Qantas and United Air Lines (United) run a duopoly on the transpacific route²³.

2.6.1 Flight Frequencies

The following flights scheduled to be operated in August 2008 are shown in Table 1.

Table 1 – Flight Frequencies between Australia and the USA for August 2008

Flight	From	To	Frequency
QF 149	SYD	LAX	14
QF 107	SYD	LAX	31
QF 011	SYD	LAX	31
UA 840	SYD	LAX	31
QF 093	MEL	LAX	31
QF 025	MEL	LAX via AKL	31
QF 073	SYD	SFO	23
UA 870	SYD	SFO	31
QF 175	BNE	LAX	31

Source: Amadeus GDS

The vast majority of flights will be operated by Boeing 747 aircraft. Of the 254 flights scheduled to be flown between Australia and the USA, 75% of those will be operated by Qantas and the remainder by United. With only two suppliers of capacity, Qantas is evidently dominant while United, an airline that only recently emerged from Chapter 11 bankruptcy protection²⁴, is incurring considerable losses²⁵. United is

²³ Qantas – Oil Wagging the Plane, Macquarie Research Equities – 06 June 2008, Page 3

²⁴ United's Bankruptcy Tab: \$335 Million-Plus in Fees, USA Today, http://www.usatoday.com/travel/news/2006-03-10-ual-bankruptcy-fees_x.htm

²⁵ UAL Corporation Reports First Quarter 2008 Results, United Air Lines (UAL Corporation), http://ir.united.com/phoenix.zhtml?c=83680&p=irol-newsArticle_Financial&ID=1133168&highlight=

“unable to materially increase competition on the route”²⁶ and unlike Qantas, is yet to invest in next-generation aircraft, including the Airbus S.A.S. A380 and Boeing Company 787, to replace its current aircraft.

2.6.2 Traffic Share

Table 2 shows that Qantas’ dominance on the route has grown from commanding 58.7% of all passengers flying between Australia and the USA in 2000 to 71.0% of passengers in the year ending 2007. Load factors for the airline are also at a record high of 82.7%. United has fared less well with passenger numbers actually falling more than a fifth during the period in review and its passenger market share has fallen to 28.1% from 41.3%.

Qantas has experienced passenger growth in all years apart from a slight fall in 2001 which is most likely attributable to the September 11 tragedies. The transpacific market certainly looks like one that would be able to absorb extra competition.

²⁶ Transpacific Route – Quantifying the Potential Risk, JP Morgan, 7 February 2005, Page 2

Table 2 – QF and UA Statistics for Operations between Australia and USA

Year	Airline	Load Factor	Pax %age Change YoY	Pax Numbers ('000s)
2000	QF	72.6%	+ 16.2 %	782
	UA	67.9%	+ 16.9 %	550
2001	QF	71.6%	- 2.5 %	763
	UA	65.5%	- 14.4 %	471
2002	QF	82.4%	+ 0.1 %	765
	UA	79.5%	- 10.4 %	422
2003	QF	82.0%	+ 7.7 %	826
	UA	78.8%	- 7.6 %	390
2004	QF	78.1%	+ 13.6 %	940
	UA	84.0%	+ 10.2 %	430
2005	QF	79.7%	+ 7.1 %	1008
	UA	86.2%	+ 8.6%	467
2006	QF	79.2%	+ 8.3 %	1091
	UA	86.0%	+ 0.6 %	470
2007	QF	82.7%	+ 0.6%	1097
	UA	80.5%	- 8.8 %	429

Source: Relevant years' publications via <http://www.btre.gov.au/info.aspx?ResourceId=204&NodeId=103>

2.6.3 Fares on the Transpacific Route

Econtech, an independent economic consultancy firm, published a report in April 2005 on the transpacific aviation market. It noted that there is "tightness in supply"²⁷ enabling "higher prices to be charged and restricts choice of flight times and airlines"²⁸. Furthermore, the market concentration, especially of late and the fewer plausible choices that passengers have is evidence of a "lack of effective competition on the Trans-Pacific route"²⁹.

Such a view is supported when looking at the fares charged by Qantas and United on the transpacific route. Airline pricing is a complex area of study. Airlines have many different fares for the same route based on class of travel and each class, especially in Economy Class which is often segregated into different 'fare buckets' charging different prices. This is done to maximise revenue due to the perishability of airline capacity.

²⁷ Analysis of the Trans-Pacific Flight Route, Econtech PTY Ltd, Page 33

²⁸ Analysis of the Trans-Pacific Flight Route, Econtech PTY Ltd, Page 33

²⁹ Analysis of the Trans-Pacific Flight Route, Econtech PTY Ltd, Page 34

Rudimentary primary research was performed by the author to gather fare data from the Qantas and United websites for a theoretical 10-day trip departing around 10 August and returning around 20 August. For comparison, fare searches were conducted for Australia – Los Angeles routings in addition to Melbourne and Sydney to London (with Qantas and Singapore Airlines). A methodology can be found in Appendix A. Fuel surcharges and incurred taxes are ignored for comparison purposes.

The results of the research have even surprised the author. Table 3 shows yields in various fare classes on non-stop Transpacific routes.

The first striking point is that on the SYD-LAX route, Qantas and United have three base fare types bookable on their websites that are identical namely: Qantas First and United First (Flexible); Qantas Economy Flexi Saver and United Economy (Flexible) and Qantas Economy Red E Deal and United Economy (Lowest).

Table 3 – Comparison of QF/UA Fares – LAX Routes

<u>Airline</u>	<u>Route</u>	<u>Base Fare</u>	<u>Description</u>	<u>Yield per km*</u>	<u>Percentage Increase Over LHR</u>
QF	SYD-LAX	20546	First	85.2 ¢	72%
		19552	First	81.1 ¢	64%
		16905	First	70.1 ¢	42%
		16043	Business	66.6 ¢	72%
		3153	Y – Flexi Saver	13.1 ¢	13%
		2658	Y – Super Saver	11.1 ¢	17%
		2225	Y – Red E Deal	9.2 ¢	21%
		1998	Y - Sale	8.3 ¢	25%
UA	SYD-LAX	20546	First (Flexible)	85.2 ¢	72%
		18557	First (Lowest)	77.7 ¢	56%
		N/A #	Business	-	-
		3153	Y – (Flexible)	13.1 ¢	13%
		2225	Y – (Lowest)	9.2 ¢	21%
QF	MEL-LAX	17744	First	69.6 ¢	39%
		16343	Business	64.1 ¢	41%
		14204	Business	55.7 ¢	63%
		3353	Y – Flexi Saver	13.2 ¢	12%
		2808	Y – Super Saver	11.0 ¢	15%
		2325	Y – Red E Deal	9.1 ¢	18%
		1998	Y – Sale	7.8 ¢	16%
UA	MEL-LAX	20546	First (Flexible)	80.6 ¢	61%
		18557	First (Lowest)	72.8 ¢	45%
		N/A #	Business	-	-
		3153	Y – (Flexible)	12.4 ¢	5%
		2225	Y – (Lowest)	8.7 ¢	13%
QF	BNE-LAX	14205	Business	61.6 ¢	58%
		3353	Y – Flexi Saver	14.5 ¢	25%
		2808	Y – Super Saver	12.2 ¢	28%
		2325	Y – Red E Deal	10.1 ¢	31%
		1998	Y – Sale	8.7 ¢	29%

- United does not offer Business Class between Australia and the USA on its own aircraft

* - Yield is denominated in Australian cents and is derived by dividing the base fare by the return 'great circle' distance flown

Source: Qantas.com, United.com

Assuming that there have been no discussions regarding the level of fares on the routes by the two companies, the fact that two supposedly 'competing' airlines are independently charging the same fare on a route is surprising to say the least.

Furthermore, a comparison with a Sydney/Melbourne to London is of interest because of the presence of significantly more competition on the route (such airlines that can be said to compete include: Singapore Airlines, Qantas/British Airways, Emirates, Thai Airways, Cathay Pacific, Malaysia Airlines, Etihad Airways, Virgin Atlantic to name a few). Admittedly there are differences because of the complexity in which costs are incurred. For example, longer flights (SYD-LAX is around 10% longer than SIN-LHR in terms of distance) incur higher fuel costs but an Australia to London flight incurs the cost of a stopover and is a longer route overall.

The results are stark. For Qantas, all fare classes hold a double-digit premium per kilometre compared to an equivalent Qantas fare to London. This premium increases substantially when one compares fares in the premium cabins. United also commands considerable yield premiums when compared with an equivalent Qantas fare to London.

Table 4 shows a comparison of Qantas and Singapore Airlines fares on the Sydney/Melbourne/Brisbane to London route.

The 'Singapore Airlines Suites' is a new class exclusively aboard Singapore Airlines' new Airbus A380 aircraft. Featuring a private cabin with separate mattress, it features comfort, privacy and service that are beyond traditional First Class offerings³⁰.

Considering this, it is astonishing that on a competitive route such as Australia to London, Singapore Airlines can only extract a yield of 63.2 cents per kilometre while Qantas manages to attract a similar or higher yield for a **Business** class product to the United States. Following, the First Class yield for both Qantas and United is much higher than any airline's yield in First Class or Singapore Airlines Suites Class on the London route.

Table 4 shows the findings of fares between Sydney/Melbourne and London for Qantas and Singapore Airlines.

The author's findings are not in isolation. Econtech found that an examination of fares between SYD-LAX and SYD-LHR in March, June, September and December 2005 showed an average 17% yield premium³¹ for the former compared to the latter.

³⁰ Singapore Airlines, http://www.singaporeair.com/saa/en_UK/content/exp/new/suite/index.jsp

³¹ Analysis of the Trans-Pacific Flight Route, Econtech PTY Ltd, Page 32

JP Morgan³² estimated that Qantas “enjoy[ed] a 3.5% unit revenue premium compared to the rest of its international business... [and] a unit profit of 0.71c on the [US] route, compared to the international average of 0.53c”.

In a 2005 document, Emirates Airline opined that Qantas “enjoyed.... aeropolitical protection”³³ on the transpacific route. The airline used published fares available from a Global Distribution System (GDS) to find that on the Sydney to Los Angeles route, Business and Economy fare premiums per kilometre compared to the Sydney to London route were 55.8% and 45.8% respectively³⁴.

³² Transpacific Route – Quantifying the Potential Risk, JP Morgan, 7 February 2005, Page 1 and Page 6

³³ Here For the Long Haul – Emirates in Australia: 1996 – 2006, Emirates Airline, Page 21

³⁴ Here For the Long Haul – Emirates in Australia: 1996 – 2006, Emirates Airline, Page 22

Table 4 – Comparison of SQ/QF Fares – LHR Routes

<u>Airline</u>	<u>Route</u>	<u>Base Fare</u>	<u>Description</u>	<u>Yield per km*</u>
QF	SYD-LHR	16979	First	49.4 ¢
		13325	Business	38.8 ¢
		10688	Business Saver	31.1 ¢
		3968	Y – Flexi Saver	11.6 ¢
		3234	Y – Super Saver	9.4 ¢
		2621	Y – Red E Deal	7.6 ¢
		2282	Y - Sale	6.6 ¢
SQ	SYD-LHR	21700	Suites	63.2 ¢
		18635	First / Suites	54.2 ¢
		13822	First	40.2 ¢
		10385	Business (A380)	30.2 ¢
		9769	Business	28.4 ¢
		9769	Business	28.4 ¢
		2527.4	Y – Flexi	7.4 ¢
		2411.4	Y – Flexi Saver	7.0 ¢
		2095.4	Y – Flexi Saver	6.1 ¢
QF	MEL-LHR	16979	First	50.2 ¢
		13325	Business	39.4 ¢
		10688	Business Saver	31.6 ¢
		3968	Y – Flexi Saver	11.7 ¢
		3234	Y – Super Saver	9.6 ¢
		2621	Y – Red E Deal	7.7 ¢
		2282	Y – Sale	6.7 ¢
SQ	MEL-LHR	18820	First / Suites	55.6 ¢
		16321	First / Suites	48.3 ¢
		13822	First	40.9 ¢
		9769	Business	28.9 ¢
		2611	Y – Flexi	7.7 ¢
		2495	Y – Flexi	7.4 ¢
		2390	Y – Flexi	7.1 ¢
		2295	Y – Flexi Saver	6.8 ¢
		2179	Y – Flexi Saver	6.4 ¢
QF	BNE-LHR	16979	First (J to SIN)	49.9 ¢
		13325	Business	39.1 ¢
		11362	Business Saver	33.4 ¢
		3968	Y – Flexi Saver	11.7 ¢
		3234	Y – Super Saver	9.5 ¢
		2621	Y – Red E Deal	7.7 ¢
		2282	Y – Sale	6.7 ¢

* - Yield is denominated in Australian cents and is derived by dividing the base fare by the return 'great circle' distance flown
Source: Qantas.com, SingaporeAir.com

The evidence is overwhelming. The duopoly operated on the transpacific route, together with 'coincidentally' identical base fares on certain routes and classes shows lack of effective competition. Further, the significant yield premium for the route compared to a more competitive route such as Sydney to London clearly shows a lack of price competition, particularly in the premium cabins. To quote a word from Margaret Jackson³⁵, former Chairman of Qantas, the idea that the transpacific route is well-served is "fiction".

³⁵ Qantas Attacks Emirates 'Fiction', Geoff Hiscock, CNN, 04 November 2005

Another Airline on the Transpacific Route

- 3** With regards to the transpacific route between Australia and the USA, it has been shown that the status quo is not an optimal scenario which many disadvantages.

The InterVISTAS-ga² report examined three effects of air liberalisation: the direct impact, the indirect impact and the induced impact. We shall use such a structure to examine the potential impact a third operator on the transpacific route would have.

Aside from the economic arguments for liberalisation of air services on the transpacific, there have also been those in the political establishment and tourism industry that are vocal supporters. A selection of these will be highlighted.

3.1 Direct Impact on Passenger Numbers and Air Fares

The Econtech study of 2005 showed that another airline could positively stimulate USA arriving and departing passenger traffic by 48000 and 13000 respectively³⁶. A total traffic increase of 61000 represented a 7.9% increase using 2003/2004 numbers.

The percentage increase in arrivals was found to be more than departures at 11.2% compared to 3.8%. Updating the numbers to the year ending May 2008 where 455700 passengers originated from the USA³⁷, a third airline operating one additional daily flight would result in 51000 more visitors to Australia per year.

This increase in passenger numbers is possible due to a decrease in air fares between the two countries in addition to taking into account the effect of increased airline choice and frequency of service³⁵. Both JP Morgan and Econtech made the "reasonable assumption"³⁸ that the "3.5 per cent unit revenue premium"³⁷ that JP Morgan found that Qantas earned on the transpacific route would disappear given increased competition.

³⁶ Analysis of the Trans-Pacific Flight Route, Econtech PTY Ltd, Page 35

³⁷ Visitors by Country of Residence, Tourism Australia,

http://www.tourism.australia.com/content/Research/visitordata/2008/ABS_May08.pdf

³⁸ Analysis of the Trans-Pacific Flight Route, Econtech PTY Ltd, Page 36

Certainly, competitive pressures in terms of capacity, fares and service would go some way to eliminating the yield premium evident on the transpacific route compared to the London route. This would benefit consumers and corporate travellers.

3.2 Impact on the Tourism and the Australian Economy

Tourism is an extremely important industry that constitutes 3.7% of Australia's GDP³⁹. 5.2 million visitors arrived into Australia in 2007 contributing A\$23 billion to the economy³⁸. 482000 people are directly employed by the Australian tourism industry, 4.7% of the working population³⁸.

For the year ended March 2008, the average expenditure in Australia by tourists from the USA was A\$2861⁴⁰ excluding airfares. Taking the above figure of 51000 additional visitors to Australia as a result of a third airline operating a daily flight, the opportunity cost to the Australian economy is A\$146 million.

Further, Australians would benefit from cheaper air fares and increased flight frequencies leading to "improved opportunities for holidaymakers and businesses"⁴¹. Especially for businesses in Australia travelling to the United States, meaningful increased competition on the transpacific route will lead to lower fares in the premium classes and bring those down to a more equitable and fair level. The result would be firms incurring lower costs of air travel, increasing competitiveness. Leisure travellers will experience a greater range of airlines and flight times to and from the United States.

For its part, if it is allowed to fly the transpacific route, Singapore Airlines has pledged to spend A\$12 million to market Australia in the USA as a tourist destination⁴². This would be in addition to the various joint tourism deals that it has in force with various entities in Australia.

The benefits results of externalities that arises where there is air services liberalisation have been highlighted in section 2.1. Nevertheless, it is worth reiterating that allowing another operator to fly on a more competitive transpacific route will result in increased economic growth

³⁹ Key Tourism Facts – Market Insights Tourism Facts 2007, Tourism Australia,

http://www.tourism.australia.com/content/Research/Factsheets/Key_Tourism_Facts_07.pdf

⁴⁰ International Visitors in Australia – March 2008, Tourism Research Australia, Page 18 – Table 1,

<http://www.tra.australia.com/content/documents/IVS/IVS%20March%202008%20revised.pdf>

⁴¹ Analysis of the Trans-Pacific Flight Route, Econtech PTY Ltd, Page 37

⁴² SIA to Spend A\$12M on Marketing Australia as Destination, Dow Jones International News, 10 October 2005

and jobs for the Australian economy. This is surely in Australia's national interest.

3.2 Support for Transpacific Air Liberalisation

There is substantial and vocal support for transpacific air liberalisation and a deregulation of air rights in general:

Nicholas Ionides, Asia Editor of Flight International commented, "competition is actually good for the market... [a new carrier] will probably end up growing the market... the trend in the industry is towards more liberalisation"⁴³.

Then Tourism Minister, the Hon Fran Bailey has described the transpacific route as being held in an "absolute stranglehold" by Qantas⁴⁴. "What we are talking about is growing the market"⁴⁵. Agreeing on the economic benefits of opening up the route she said there was a "need to grow this tourism market to create more jobs in Australia"⁴⁶.

Brett Godfrey, CEO of Virgin Blue Airlines called the route "one of the least competitive in the world"⁴⁷ and reached similar conclusions regarding air fares as this author.

United Air Lines has taken the opposite stance from Qantas. Instead of advocating a position of protectionism, United's Senior Vice President Airport Operations said of competition on the route, "you can't be afraid of it... You've got to face it head on and have the right product for the right consumers"⁴⁸. United accused Qantas of being "hoist[ed] on the petard constructed by... protectionist policies"⁴⁹.

Michael Keenan MP for Stirling (Western Australia) commented that Australian consumers would benefit "from any increased levels of competition on the route"⁴⁴.

⁴³ Looking at the Prospects of Singapore Airlines Taking the Trans-Pacific Route, RSI, <http://www.rsi.sg/english/connections/view/20050609113122/1/.html>

⁴⁴ John Anderson Advises Caution over Singapore-Qantas Merger, ABC, <http://www.abc.net.au/pm/content/2005/s1519432.htm>

⁴⁵ Anderson Backs Singapore's Flight Bid, The Australian, 17 February 2005

⁴⁶ Air Canada Might Keep SingAir off LA route, Sydney Morning Herald, 28 January 2006

⁴⁷ Singapore Airlines Keeps Up Fight for Trans-Pacific Rights, Aviation Record, <http://www.abc.net.au/pm/content/2005/s1519432.htm>

⁴⁸ United Ready to Battle Singapore Air on Trans Pacific Route, Asia Pulse, 09 March 2005, Sourced from Factiva database (Factiva ID: APULSE0020050309e1390020f)

⁴⁹ United Seeking an Open Pacific, The Australian, 05 August 2006

Peter Harbison of the Centre of Asia Pacific Aviation (CAPA) has bluntly said, "there's no other way of getting between Australia and the US [in terms of... non-stop travel]. It's a nice, tidy, protected route where Qantas is making a lot of money"⁵⁰. He elaborated saying that "the traditional view of national interest being synonymous with the flag carrier's interest should always be challenged"⁵¹.

The CEO of Flight Centre, Graham Turner, has called the 2006 decision to exclude Singapore Airlines from flying the transpacific route as "an amazing decision, ... strange... [when] in every other business [the Australian Government is] going the other direction"⁵².

Andrew Miller, also of CAPA said the move was "totally inconsistent"⁵³ when compared to other industries and pointed out to the benefits gained from the Australia / New Zealand SAM agreement.

Commentary by The Australian newspaper in 2006 called Qantas "a protected species"⁵⁴ adding Australian experience has shown that "nations that abandon industry protection benefit through lower consumer prices, whatever competing countries do"⁵².

John Rolfe in a column in the Daily Telegraph (Australia) opined that "protecting Qantas from competition is a policy that belongs in Disneyland. Or Cloud-Cuckoo Land, to be more precise"⁵⁵.

When Singapore Airlines was denied access to the transpacific route, Kerry O'Brien MP, then Shadow Minister for Transport, spoke of the need to take "hard decisions on competition in the aviation sector"⁵⁶.

CEO of Emirates Airline has condemned protectionism: "Lately, Qantas has tried to stop, at all costs, competition on one of the world's most protected routes, Australia to the US... Their calls for protection belong in another era"⁵⁷. He added that "customers are paying higher fares as a result"⁵⁸.

⁵⁰ Why Airlines, Including SIA, Covet Aussie-US Route, Business Times (Singapore), 27 September 2003

⁵¹ Australia Takes Heat From Industry over SIA Decision, Business Times (Singapore), 23 February 2006

⁵² FOCUS – Icon Status of Australia's Qantas Helps Sway Govt Decision on US Route, AFX Asia, 26 February 2006

⁵³ Free Trade? Up, Up and Away With It, The Courier-Mail, 25 February 2006

⁵⁴ A Protected Species?, The Australian, 26 February 2006

⁵⁵ PM and Cabinet in Fantasyland over Qantas, Daily Telegraph (Australia), 21 February 2006

⁵⁶ Cheap Fares on Hold as SingAir Barred from the Pacific, Australian Associated Press, 21 February 2006

⁵⁷ Emirates Air Criticises Australia's Qantas for 'Protectionism', AFX Asia, 07 November 2005

⁵⁸ Qantas One of the World's Most Anti-Competitive Says Emirates, Australian Associated Press, 07 November 2005

Emirates Airline itself has said that competition on the transpacific route would “surely provide public benefit to Australia”⁵⁹.

Melbourne Airport, Brisbane Airport, the Queensland Tourism Industry Council, the Gold Coast Tourism Bureau have also supported ‘open skies’ on the route⁶⁰

There is also evidence of strong support among the aviation enthusiast and frequent flyer community on internet forums such as FlyerTalk.com, Airliners.Net.

⁵⁹ Emirates Joins Qantas Dogfight, The Age, 28 June 2005

⁶⁰ Queensland Calls for Open Skies, Sydney Morning Herald, 26 July 2006

Conclusion

4

4.1 A Personal Note

This author is not an economist or aviation analyst. Further, at the time of submission, he is not employed by any tourism, aviation or related company.

There are many issues at play when it comes to air liberalisation. However, thanks to the Australian Government inviting submissions to the National Aviation Policy Statement, the author has been able to bring a variety of points to the fore. In an attempt to educate, dispel some mistruths and highlight the advantages of air liberalisation, the author hopes that he has been able to add value to the debate.

4.1 Air Liberalisation is in the National Interest

This report has identified research and used economic theory to show how air liberalisation has benefited a variety of relevant industry players. These include airlines, airports and companies involved in tourism amongst others.

Further, it highlights how important it is for the Australian Government going forward to separate distinctly between a large private entity's interest and the national interest. There is substantial evidence to conclude that when it comes to the subject of air liberalisation, Qantas Group' objectives are antipodal to the national interest. This can be seen explicitly. In a situation where Qantas is not ready to expand its operations but foreign carriers are, the Qantas view is that the Australian economy should only benefit from air liberalisation at a pace that Qantas dictates. Regarding the transpacific route, past government decisions to prevent liberalisation has incurred opportunity costs to the Australian economy of potentially several hundreds of millions of dollars.

Qantas' own arguments regarding the potential negative effect to its profits and employee count are overplayed. By most if not all accounts, Qantas is one of the world's most profitable airlines and is currently in a very good position to sustain itself for the long term. To not liberalise air routes and reap the rewards from doing so in the name of one company

is damaging to the economy. It is also against the free trade mantra adopted by many nations including Australia.

An analysis of fares on the transpacific route showed that there was an extreme disparity on a revenue per kilometre (RPK) basis compared to the London route which is more competitive. There appears to be a significant yield premium for leisure travellers and this is magnified substantially for the premium cabins.

This is a sign of ineffective and inadequate competition on the transpacific route. Leisure passengers are getting a very poor deal while extortionate premium class fares are detrimental to businesses, their employees and business travellers.

Liberating the transpacific route to include airlines that have the capability of introducing dynamic long-term competition to the route will be advantageous. Fares will be reduced leading to increased tourism and Australian corporate competitiveness for those that engage in business in the USA. Passengers will also benefit from increased flight frequencies and competition for their business. Over time the transpacific market will grow and Qantas is very likely to be among those to be beneficiaries.

One must not underestimate the power of market forces, not only in terms of fares but also of product. Competition incentivises airlines to improve their operational performance, product offering and cost-efficiency. These three factors benefit consumers regardless of industry.

One cannot conclude a report on air liberalisation without condemning the structure in which the airline industry operates. Restrictive air services agreements are still in effect to this day even though they were created with the sole aim of protectionism. The dynamism of a market is confined which has led to airlines being subsidised by governments, competitive forces being stifled and national interests not being fully served. Such actions by governments are unheard of in almost every industry. This National Aviation Policy Statement will be an opportunity for Australia to join other like-minded countries to lead the world into a new era of aviation where national and multi-national interests are served, not those of myopic protectionists.

Air liberalisation can certainly benefit Australia's national interest. The sooner it occurs on a more complete basis, the faster Australians as a whole can profit from it.

Appendix A

Air fares were found on the Qantas.com (Australia), United.com (Australia) and SingaporeAir.com (Australia) websites on 08 July 2008.

A trip beginning 10 August 2008 and returning 20 August 2008 was used in all cases (either transpacific or on the London route). If the lowest fares, or most direct flights were not able to found on those dates, the 10 day trip starting date would be shifted (e.g.: 11 August to 21 August 2008) around those initial dates.

Fares shown are applicable to flights operated by Qantas, United Air Lines and Singapore Airlines. They are not applicable to codeshare flights or flights operated in cooperation with other airlines (these fares tended to be higher than when the trip is actually operated by one of the three airlines).

The great circle distances were retrieved in kilometres via <http://gc.kls2.com>. For London routes, the distance calculated was via Singapore (e.g.: Sydney to Singapore to London). Actual flight paths may differ from the great circle route due to factors including wind and air traffic direction.

Fares retrieved were denominated in Australian Dollars. Yield is denominated in Australian cents. There was no currency conversion performed by the author.