



26 October 2012

Australian Productivity Commission
Trans-Tasman Study
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**Australian and New Zealand Productivity Commissions'
'Strengthening Trans-Tasman Economic Relations'
Discussion Draft September 2012**

The Qantas Group (Qantas) welcomes the opportunity to comment on the Discussion Draft on the Australian and New Zealand Productivity Commissions' joint scoping study on the impacts and benefits of further economic integration of the Australian and New Zealand Economies.

New Zealand is Australia's largest international aviation market in terms of services and passengers, with over 40,000 flights between Australia and New Zealand and 5.65 million passengers moving between the two countries in 2011¹. As the national carrier of Australia, and a significant provider of air services in New Zealand with a longstanding commitment to the market, the Qantas Group has a vested interest in discussion around further integration of the two economies, including areas relating to air services.

The Australia-New Zealand aviation market is highly competitive with seven airlines currently operating direct services on the trans-Tasman route including Qantas, Jetstar, Virgin Australia and Air New Zealand in addition to third country airlines such as Emirates and LAN Airlines. Many third country airlines also serve the route as marketing carriers under code share arrangements.

Qantas offers trans-Tasman services in conjunction with its wholly owned, New Zealand based subsidiary Jetconnect, which operates under a New Zealand Air Operators Certificate (AOC). Over 200 return Qantas services are operated per week between Sydney, Melbourne and Brisbane and Auckland, Christchurch, Wellington and Queenstown. The Qantas Group employs approximately 700 staff in New Zealand, representing approximately 2% of the Group's workforce.

¹ BITRE International Airline Activity (uplift/discharge), September 2012



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Jetstar commenced trans-Tasman flights in 2005 and began serving the domestic New Zealand market in 2009. Today, Jetstar operates up to 48 direct services per week between Brisbane, Cairns, Melbourne, Gold Coast, Sydney and Auckland and selected routes to Christchurch and Queenstown. Domestically, Jetstar New Zealand operates a fleet of nine A320 aircraft between Auckland, Christchurch, Dunedin, Wellington and Queenstown. These services are operated under Jetstar's Australian AOC which is recognised in New Zealand under the provisions of the Australia New Zealand Aviation (ANZA) Mutual Recognition Principle.

The recently announced partnership (subject to regulatory approval) between Qantas and Emirates will offer an enhanced customer proposition and open the possibility to explore new opportunities across the Tasman. In approving a partnership between Air New Zealand and Virgin Australia, regulators recognised that such airline partnerships deliver public benefit.

The aviation sector is highly regulated and operates within a global, complex bilateral framework. Within this bilateral system, the Australia-New Zealand Air Services Arrangements are among the most liberal in the world. A Single Aviation Market (SAM) has been in place since 1996 and in August 2002, the Australian and New Zealand Governments signed an 'Open Skies Agreement' which removed restrictions on capacity, frequency and routes that airlines of either country can operate across the Tasman, including rights to operate services within or beyond the two countries.

Qantas acknowledges the efficiencies and benefits that have been realised in a wide range of areas through the strengthening of trans-Tasman economic ties through Closer Economic Relations (CER). Commentary has been provided in the attachment to this letter on aspects of the Discussion Draft pertaining to air services and the suggested reforms and initiatives proposed to realise further integration in this sector.

We would welcome the opportunity to discuss this submission at a time convenient to the respective Commissions.

Yours sincerely

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Closer Economic Relations

[Q4.2] Should existing exclusions from CER, such as air services, be loosened or abolished?

Qantas recognises that Closer Economic Relations (CER) between Australia and New Zealand over many decades have been highly successful in removing explicit restrictions on trade and substantial progress has been made on reducing other barriers to integration through reform and cooperation to realise efficiencies.

In the context of aviation, Australia-New Zealand air services are underpinned by bilateral arrangements which contain the features of an ‘Open Skies’ arrangement. The existing framework and bilateral arrangement, which has been in place since 2000, has provided an effective mechanism for growth of airlinks and has enabled carriers of both sides to serve market needs well.

Given the effectiveness of the existing framework, Qantas expects that aviation market access arrangements will continue to be addressed under the bilateral treaty arrangements already in place. This approach would be consistent with the treatment of aviation in the Free Trade Agreements (FTAs) which Australia has already negotiated with the United States of America (US), Singapore and Thailand and which New Zealand has in place with Malaysia, China and Singapore. Indeed this approach would be consistent with current global practice.

The Qantas Group would strongly argue that the existing exclusions from CER in relation to air services are maintained.

The trans-Tasman Market

Simplification of trans-Tasman travel

The Qantas Group is broadly supportive of the goal of realising a ‘domestic-like’ experience for trans-Tasman travellers. This support is based on our aim to enhance the experience of our customers when they travel between Australia and New Zealand.

While recognising there are some challenges in simplifying trans-Tasman travel, such as differences in border processes and policies, exchange of information and IT harmonisation, location of duty free sales and public revenue implications, these should not be considered insurmountable and indeed overcoming them will unlock significant opportunities for both countries.

The Qantas Group’s preferred model of travel simplification in the trans-Tasman market is the ‘single point processing model’. This model would see all in-bound and outbound immigration, quarantine and customs checks occur in New Zealand’s international terminals (as there are less terminals and therefore less cost).

Under this approach passengers would be able to arrive and depart Australia in domestic terminals. The key benefits of this approach are:

- It lowers the cost of travel by avoiding expensive international terminals and replicated processes;
- It cuts travel time because the check-in times domestically in Australia would be much shorter;
- Ability to defer infrastructure upgrades and as more passengers can be processed within existing infrastructure
- Freeing up border agency resources to concentrate on higher risk passengers; and
- Potential to open up new regional markets between Australian airports and New Zealand without the need for expensive infrastructure changes or resourcing.

Furthermore, the removal of the necessity for passengers to fill out departure and arrival cards and to bypass the immigration check at Australian airports will amount to significant cost savings for the border agencies of both countries. In looking at ways to implement this initiative, our preference would be to explore ways that airlines can share the data with border agencies that is already collected as part of the current booking process, rather than collecting additional data.

On a general note, as measures to realise the efficiencies of simplifying trans-Tasman travel have wider flow on benefits beyond simplifying travel for passengers, it would not be expected to see any significant responsibilities or cost burdens on airlines. Increases in costs to airlines through additional burdens would impede the ability to respond to improved market conditions that would arise from simplified trans-Tasman travel.

[DR 4.8] Removing the remaining restrictions on the single trans-Tasman aviation market

Seventh Freedom Rights

The existing air services arrangements refer to the undertaking by Australia and New Zealand to further examine the introduction of seventh freedom rights for passenger services for carriers of both sides.

The grant of seventh freedom rights for passenger services remains an uncommon practice globally. To date, these rights have rarely been discussed in any meaningful way in Australia's air services negotiations, and Australia has not exchanged them with any country.

Qantas would support further discussion of the possibility of granting seventh freedom rights in the future, against the background of the current aviation market.

Designation, ownership and control restrictions

Australian international airlines are subject to the foreign ownership limits of either the Qantas Sale Act 1992 or for all other carriers, the Air Navigation Act 1920. Under this legislation, foreign ownership in Australian international carriers is limited to 49 percent, with additional limitations in place for Qantas.

These legislated limits are in place to ensure compliance with the ownership and control requirements for the designation of international carriers under bilateral agreements.

Qantas supports the removal of restrictions on foreign ownership, which would bring Australia's aviation industry in line with other industries and their ability to compete. The removal of these restrictions would also improve opportunities to participate in cross-border industry consolidation and strategic alliances.

Under the Australia-New Zealand Air Services Agreement, the eligibility criteria for SAM carriers requires the airline to be majority owned and effectively controlled by Australian and New Zealand interests, as well as satisfying other criteria. Qantas supports the removal of restrictions on foreign ownership for SAM carriers, in line with the Australian Government's negotiation criteria for designation based on principal place of business and regulatory control in Australia's bilateral agreements.

[DR4.10] Passenger Movement Charge

Qantas supports the reconfiguration of the Passenger Movement Charge (PMC) as a genuine cost recovery mechanism for border services. We consider the PMC to be a disproportionate and unnecessary burden on the aviation industry, particularly on trans-Tasman services.

As the PMC is not differentially applied to passengers departing from Australia, short haul routes, such as to New Zealand, or those routes which are principally composed of leisure traffic which have a higher elasticity of demand, are unfairly impacted. The PMC is now up to one third of the cost of a Jetstar flight from Sydney to Auckland and third party surcharges, fees and taxes now comprise \$153.64 on an average return fare on this route. This is a serious concern in a highly competitive and price sensitive industry.

On a general note, it is widely understood that the PMC vastly overcollects the cost of Customs, Immigration and Quarantine services which it purports to finance. By 2016 it is estimated that the PMC will collect over AUD\$1 billion. While the tax continually increases there has been no corresponding increase in border services. Indeed as a public good there is a strong argument that these services should be funded through consolidated revenue and not through a notional "user pays" charge.

With regards to trans-Tasman services, the close economic relations between Australia and New Zealand are enabling increased streamlining in border processes and the liberal air services arrangements in place are facilitating moves towards a more 'domestic-like' experience for services between the two countries. These trends, together with the relative short distance of these flights, support the argument for alleviating the PMC burden on this route.

In the longer term, the evolutionary path towards a seamless border experience through increased automation and advances in technology, should reduce costs and enable border agencies to concentrate their attention on those passengers of interest, while allowing the vast majority that pose no threat to pass freely and without intervention or inspection. It is argued that this envisaged future operating model would see the removal of the PMC altogether.

[DR4.15] The Australian and New Zealand Governments should progress the further roll out of SmartGate and associated systems where it is cost effective to do so, focusing on departures from Australia and on regional airports.

The expansion of the SmartGate system at Australia's major airports, regional ports as well as further integration of SmartGate and associated systems for travel between Australia and New Zealand is strongly supported by Qantas, provided such initiatives are cost effective and there are no additional financial or resourcing burdens for airlines. It is appreciated that the drivers for border agencies are understandably different; nonetheless, Qantas considers that Australia must improve the overall processing rate of arriving and departing passengers.

The announcement earlier this year of an additional 20 SmartGate terminals to be installed at Australian international airports by 2014 was well received, as was the expansion in January 2012 of eligibility criteria for the system to include Australian and New Zealand ePassport holders aged 16 and 17 years. Qantas awaits further expansion of the eligibility criteria which will eventually permit citizens of the United States of America, the United Kingdom and Singapore with ePassports to utilise the system.

Qantas supports the use of SmartGate processing for outbound departures in Australia and welcomed the recent trial of a new integrated SmartGate solution which gave passengers travelling from New Zealand to Australia the option to complete part of the Australian arrivals process in New Zealand. Qantas encourages further SmartGate trials to facilitate a seamless border experience for trans-Tasman services.

[DR4.16] To improve the attractiveness of Australia and New Zealand as a joint tourist destination, the Governments should explore a 'trans-Tasman tourist visa' for citizens from other relevant countries who wish to travel here.

In the interest of facilitating more streamlined movements across borders and increased tourism between Australia and New Zealand, Qantas supports the concept of a 'trans-Tasman tourist visa' for foreigners visiting both countries.

It is noted that a Memorandum of Understanding on the sharing of criminal history checks between Australia and New Zealand has recently been signed which is potentially a preliminary step towards implementing this proposal.

Due to the differences between Australia's universal visa requirement and New Zealand's Visa Waiver Program, it is assumed that a 'trans-Tasman tourist visa' would only benefit visitors from countries other than the 56 countries that do not currently require a visa to New Zealand under the Visa Waiver Program.

[DR 4.7] Where it is cost effective, quarantine and biosecurity agencies in Australia and New Zealand should continue to develop common systems and processes and enhance their current joint approach to risk analysis.

The biosecurity requirements of Australia and New Zealand differ significantly in many areas which limits opportunities for reducing quarantine restrictions on a trans-Tasman basis. Notwithstanding this, it is acknowledged that efforts are being made between Australia and New Zealand in moving towards a more targeted approach to assessing biosecurity risks.

Qantas supports initiatives to develop common systems and processes to enhance passenger screening, where such initiatives are cost effective and do not result in additional financial or resourcing implications on airlines.

Qantas encourages the use of technology to expedite processing and supports plans by New Zealand to implement a direct exit path for low risk New Zealand and Australian passport holders arriving from across the Tasman. By obtaining access to x-ray images taken at the time of departure in Australia of passengers' baggage, screening by New Zealand border agencies can be conducted while passengers are in-flight and any biosecurity risks identified well before the plane has landed. On arrival, those profiled as 'low-risk' will be directed to a streamlined biosecurity clearance lane at passport control, enabling a faster exit for most passengers.

Emissions trading

Qantas recognises the role of emissions trading schemes in reducing global greenhouse gas emissions. Presently we are subject to a carbon price in three jurisdictions – New Zealand, the European Union and Australia.

Broadening access to carbon markets facilitates carbon being reduced in the most cost effective manner. Therefore, Qantas supports linking the Australian Carbon Price Mechanism (CPM) to the New Zealand Emissions Trading Scheme (NZETS) provided however, that the benefits of such an initiative are not constrained through restrictions that would artificially limit free access to additional carbon markets.

Qantas supports a global sectoral approach to reduce global emissions and considers international aviation as appropriately being managed through the International Civil Aviation Organisation (ICAO).

Looking beyond the trans-Tasman market

[DR 4.9] Working towards further broader liberalisation of air services policy

The Australian Government's National Aviation Policy White Paper, released in December 2009, is a comprehensive policy which sets out long-term objectives for the aviation industry to 2030 and beyond. The discussion regarding broader liberalisation of air services policy beyond the trans-Tasman market is outside the scope of the present joint study.

Pursuing broader liberalisation

Qantas advocates carefully sequenced, case-by-case approaches to further air services liberalisation, with priority given to the needs of Australian carriers, and markets requiring additional origin/destination capacity. We support the Australian Government's approach to pursue an international air services policy that includes 'open skies' style agreements, where appropriate, while taking into account the extent to which international airlines are prepared to invest in Australia.

Restrictions on access to regional markets

The Australian Government currently negotiates for foreign airlines to have unlimited access to airports other than those serving the four major gateways of Sydney,

Melbourne, Brisbane and Perth. This policy is designed to spread the benefits of international tourism more broadly across Australia, and in particular to regional centres. Through an enhanced regional package, foreign airlines can access additional capacity to major gateways where services are linked to regional airports.

Qantas notes the limited number of services operated by foreign airlines to regional airports and the commercial barriers that exist in doing so, such as higher operating costs, lack of infrastructure and lower levels of demand. While carriers will only generally operate services that are economically viable, expanding the simplification of trans-Tasman movements and associated cost benefits to regional markets could increase the attractiveness and viability of regional destinations for foreign carriers.

Benefits from multilateral liberalisation of air services

Qantas recognises the economic, trade and tourism benefits that flow from the removal of regulatory barriers in aviation. Over the next decade, a gradual move towards a multilateral framework to replace the complex system of bilateral agreements is anticipated.

A number of plurilateral and multilateral agreements are already progressing globally, for example within ASEAN and the Open Skies Agreement between the European Union (EU) and the US. These have the potential to replace the patchwork of bilateral agreements – and the piecemeal liberalisation they have produced – in a number of key aviation regions. The EU-US agreement in particular has set a global benchmark for the pace and scope of future liberalisation in other regions.

The Australian Government has committed to pursue a multilateral approach to liberalisation of international aviation in key international trade forums.