

To:

Director, Aviation White Paper Project Office
Aviation White Paper
Department of Infrastructure, Transport, Regional Development, Communications and the Arts
GPO Box 594
CANBERRA ACT 2601

29 November 2023

Dear Director,

Thank you for the opportunity to provide further input into the development of the Aviation White Paper.

At Concordia Vox, we are committed to providing reliable ESG data that investors can use to make informed assessments of the long-term performance of companies. Our focus is on the 'S' part of ESG, social factors, which we measure through the use of artificial intelligence and automation to build independent datasets that capture the sustainability of business practices that impact consumers and employees.

The attached responses to questions posed in Chapters 3 and 11 add to the prior recommendations of our March submission (e.g. compensation scheme for cancelled flights) aimed at ensuring a more sustainable aviation sector that delivers better outcomes for consumers.

We would be happy to provide further clarification on any of the matters raised in this submission.

Yours faithfully,

James Pawluk
Managing Director

Chapter 3 – Airlines, airports and passengers – competition, consumer protection and disability access settings

What types of data and analysis should the Australian Government produce to support aviation competition outcomes?

The Australian Government should regularly publish an Australian aviation market outlook projects of long-term growth for demand and capacity alongside other statistics that measure network performance or can support long term planning and policymaking (e.g. on time performance, workforce numbers, carbon emissions).

The outlook should be published every 4 to 5 years (similar to Treasury's Intergenerational Report for long term fiscal policy) with an annual update produced to capture short-term trends and material deviations from the outlook. This structure would support the following policy objectives:

- Provide context for short-term government decisions. For example, forecasts could provide implicit and possibly explicit guidance on 'Capacity ahead of Demand' and the annual updates could contain a retrospective account of decisions taken on applications for capacity.
- Provide new entrants and smaller firms with improved data to support their planning.
- Support an informed public conversation that is backed by independent data and analysis.

In terms of content, the global market outlooks that Boeing and Airbus each produce offer a useful starting point, including their 20-year forecast horizon (reflecting the typical lifespan of a commercial airliner). It would be important to adapt these for the Australian context and consumer, including:

- Sufficiently granular forecasts at the airport and route level
- Passenger-centric metrics (as opposed to operator-centric): such as measuring on time performance (OTP) based on passenger arrival/

departure rather than flights or measuring connectivity, travel time and fare levels for individual airports and the communities they serve.

- Tracking levels of industry concentration and any impacts of consolidation.
- Measuring emissions intensity for individual routes to promote effective competition on emissions and accelerated emissions reductions.

Would the Australian Government's publication, in consultation with industry, of a decision-making framework and guide for short term cabotage dispensations support clarity of current processes to manage future decisions to implement longer-term cabotage arrangements?

The rationale for cabotage dispensations (particularly under the 8th Freedom) is to enable international and domestic traffic to be consolidated together in order to improve route viability (on both the international leg to a second-tier airport and the onward domestic leg). The risk of this approach is that it diverts demand from existing domestic operations, shrinking the size and scale of regional networks in particular. This would in turn undermine the economic viability of other regional routes that rely on a shared fleet and workforce.

These risks can be avoided by pursuing the same economics via feeding international traffic on to domestic services and we've proposed an alternative freedom for achieving this (see response to Chapter 11 below).

What should the Australian Government take into account in designing the terms of reference for the proposed Productivity Commission Inquiry?

The Productivity Commission should be asked to examine:

- The effects of industry consolidation on regional services in other national markets including the United States.
- The relative strengths of both point-to-point and hub-and-spoke networks for promoting connectivity, competition and service reliability.
- Alternatives to cabotage dispensation for improving route viability.

Chapter 11 – International aviation

The Australian Government proposes to continue the current ‘Capacity ahead of Demand’ approach, and negotiate ‘Open Skies’ style agreements where it is in the national interest and can be bilaterally agreed.

- Are there other issues or concerns associated with the Australian Government’s approach to negotiating aviation bilateral agreements that you wish to highlight?

The core logic behind existing Open Skies agreements saw governments as the major impediment to more connections, capacity and competition. Removing them from day-to-day decisions on routes, capacity and pricing did indeed usher in an ‘explosion’ in new carriers and business models, that made air travel more accessible than ever before.

While in some contexts national governments may still act as an impediment to new entrants or increased capacity, increasingly it is airlines themselves are becoming the bigger obstacle to effective competition and route formation. For example, the capacity of incumbent operators to either deter new entrants or act as gatekeepers in determining which carriers can access their networks and on what terms.

The recent Senate inquiry saw a number of stakeholders calling for further international competition via more Open Skies agreements and even relaxation of cabotage restrictions. While this would generate short-term benefits for consumers, by contributing to further industry consolidation globally it would also lead to worsening competition over the longer term. At some point, policymakers will need to turn their attention to curtailing some anti-competitive practices more directly.

- What opportunities exist to improve the approach to international negotiations?

One opportunity to improve the current approach to negotiations is via modernising the ‘freedoms of the air’ framework that underpin most bilateral negotiations. The existing nine freedoms have been largely static since at least the 1980s, despite airline business models and enabling technologies having evolved substantially around them.

The following describes a potential tenth freedom that Australia could use to underpin an extension of the Open Skies framework:

The right or privilege, in respect of scheduled international air services, granted by one State to another State, for its designated airlines to code-share on domestic services within the territory of the granting State under competitive and non-discriminatory terms either on nominated routes, including for individual airports, or across an entire domestic network.

The simplest way of conceptualising this change is by comparison to the existing eighth freedom (i.e. consecutive cabotage) which grants foreign carriers the right to operate a domestic sector (and take on domestic passengers for that sector) provided it is a continuation of an international service. Instead of allowing foreign carriers to fly a domestic route themselves, the proposed tenth freedom would ensure they could transfer their passengers on to domestic services on competitive terms (without needing to negotiate with an Australian carrier).

The competition effect of granting such a right would be to lower the barriers for foreign carriers providing international services to the **entire** Australian market, beyond the airports that they can directly reach. For example:

- A European carrier that established a connection to Perth would be able fill the plane with passengers travelling on to Melbourne, Sydney and Brisbane (rather than just people travelling to or from Perth).
- An Indian carrier with a narrow-body fleet that cannot reach Australia’s East Coast could service it by establishing a connection with Perth or Darwin.

- Meanwhile, a South-East Asian carrier with aircraft that can reach Sydney, might opt to use the same aircraft to ferry twice as many passengers back and forth to Darwin in the same time and have domestic operators transport those passengers the rest of the way.

Critically, in all three cases, being able to access seats on domestic services on a variable cost basis as opposed to incurring the fixed costs of operating the domestic sector themselves (as under consecutive cabotage) would reduce the overall level of financial risk attached to operating a new route.

Operationally, the short-term advantages of using Perth or Darwin as consolidation hubs (over Singapore or the Middle East) are that (a) the domestic legs could be performed more readily with narrow-body aircraft and (b) the international legs would require fewer wide-body aircraft on rotation to sustain a daily operation. This means a network structure less constrained by wide-body production lines at Boeing or Airbus for adding capacity.

When combined – higher aggregate demand, lower financial risk and greater operational flexibility – means that tenth freedom rights would be more likely to activate new services than eighth freedom rights and without compromising the integrity of domestic networks.

For Australian carriers, the impacts would be two-fold: an increase in traffic on their domestic networks offset by reduced capacity to ‘sell’ preferential access to their domestic networks to partner airlines. While Australian airlines may be reluctant to forego discretion over allowing access to their domestic network, it’s important to acknowledge that the value of this access is underpinned by the protection of their domestic routes by legislation. There is therefore a legitimate public interest in determining how the value of that protection is shared with foreign carriers whom are not its intended beneficiaries.

The Australian Government proposes to maintain the current legislative settings for foreign investment in Australian international airlines under the Air Navigation Act 1920, the Qantas Sale Act 1992, and the Foreign Acquisitions

and Takeovers Act 1975. Where possible, the Australian Government will also continue to seek to include the ‘incorporation and principal place of business’ criteria in bilateral agreements.

- **Are there problems or potential improvements related to the Australian Government’s approach to managing foreign investment in Australian international airlines?**

The main issue to note regarding current foreign ownership settings is the risks to competition that flow from airlines owning a stake in other airlines, including for the purposes of gaining preferential access to their domestic networks. This would become less of an issue if access to domestic networks (and originating traffic) were managed neutrally through policy rather than commercially by airlines.

The Australian Government proposes to continue its program of international and regional aviation engagement including capability and capacity building in the Asia-Pacific. The Australian Government will also consider additional opportunities to provide support, such as a targeted Pacific program that collaborates closely with other countries and Pacific aviation organisations.

- **What areas should Australia target through its international aviation programs?**
- **Are there opportunities for improvement and where would the greatest benefits be achieved?**

In considering the adoption of the proposed tenth freedom, Australia could factor in the potential for the potential network structures to support the developmental and security interests of its neighbours in the Asia-Pacific.

For example, if connections between Australia’s East Coast and Europe and Asia were established through Darwin, then Pacific Islands could also leverage these same routes. This would not only be more time and fuel efficient (therefore less carbon intensive) than transiting through Brisbane, but would more readily scalable than connecting through Singapore and Hong Kong. As

Darwin would be more suited to their typically smaller gauge fleets and at half the distance twice as much capacity can be added the same amount of flying.

The Australian Government is considering changes to the Framework for designating international airports and associated funding issues.

- **What issues should be considered in changing the Framework for the Provision of Border Services at New and Redeveloping International Ports?**

The advantage of consolidating more international traffic through Perth or Darwin under the model described earlier is that it would allow more convenient connections for other regional airports without them needing to provide border services for the terminating flight.

For example, even if more direct routes could be secured for regional centres like Newcastle or Townsville by connecting them through Singapore this would require border services to be operated at a significant cost. Whereas connecting them via Darwin would not only be more economically feasible, but border services would not be required as passengers could be cleared when transiting through the hub.

This provides an opportunity for increased scale and consolidation of border services, as well as greater convenience for travellers since the clearance processes can be integrated into the transit time rather than imposed on the start or end of the journey.