



## Submission to the National Aviation Inquiry 2008

Unimpeded access to the rest of the world is vitally important for a city's prosperity.

Melbourne's reputation as one of the world's most liveable cities is a vital foundation for its economic and social development. The success that is being achieved in this regard is reflected in Melbourne currently having the fastest population growth of all Australian capital cities – people want to live here in increasing numbers. This implies a commitment to investing in infrastructure and implementing national policy to accommodate growth, particularly in aviation.

Sustaining Melbourne's liveability and prosperity depends on a number of factors, foremost of which is its transport system, including its place in the national aviation landscape. The Committee for Melbourne ('the Committee'), a representative group of Melbourne's leaders from business, academia, government, and the community, has long been an advocate of liberalised air travel arrangements to and from Australia.

The Committee was formed over 20 years ago to ensure that Melbourne remains a vibrant, liveable, innovative, and cosmopolitan place in which to live and work. The Committee sees the aviation industry as a critical component of positioning our city competitively in an environment of unprecedented global awareness and factor mobility.

In the early '90s, the Committee pushed very hard for the privatisation of Melbourne Airport, which led to more direct international services to Melbourne and stimulated the growth of Melbourne Airport.

International connectedness is one of the Committee's objectives and this is fostered by having open access to our ports for all airlines which choose to fly here. Since the privatisation of Melbourne Airport, the number of airlines offering direct services between Melbourne and overseas ports has increased and international traffic growth for Melbourne Airport has been greater than Sydney.

Over the last 10 years, passenger growth at Melbourne airport has average 5.1% annually (since 1997), compared to Sydney's 4.2% annual growth over the same period. For international passengers, Melbourne's average growth of 6.8% significantly exceeded Sydney's 4.3%. (Source: *Airport Traffic Data 1997-98 to 2006-07*, p.10.)

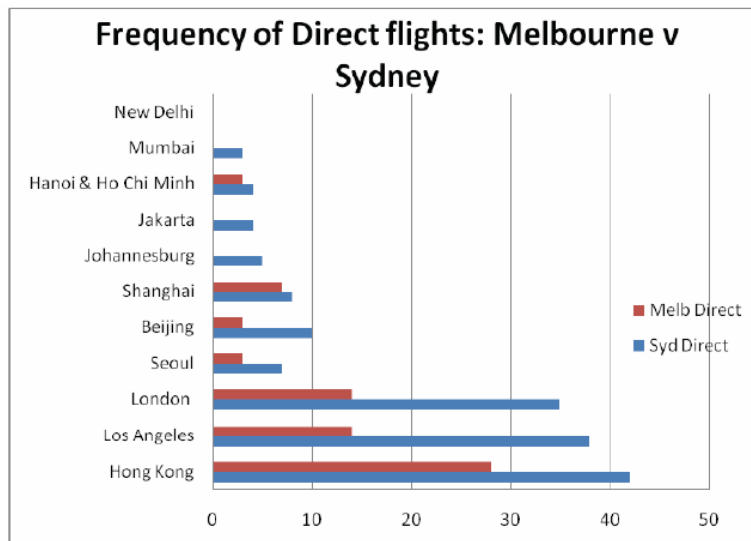
The Committee advocates extending this liberalisation trend in Australia's international air policy to an open skies environment - fifth freedom and beyond. This move will enable airlines to freely transport passengers into and from Australia.

The Committee has observed with interest the benefits of deregulation in Australia's domestic aviation industry. More airlines now provide more services with lower fares and more direct connections between more airports. This amounts to far more choice for consumers. The variety of services offered domestically is also greater, ranging from cheap, 'no-frills' services, to full-service airlines with lounges and on-board meals. The Committee also acknowledges that regulation is of course required to ensure operators meet safety standards. However, we are of the opinion that airlines, not governments, are best placed to assess the level of demand for their services.

However, we note that, in contrast to the domestic aviation industry, international travel is quite regulated and access is restricted between Australia and the United States of America (USA), and Australia and Asia. This is unusual in an area of increasingly free international trade across all sectors of the economy and the Committee questions the need for this 'special treatment' of international air travel.

The regulatory environment for international airlines is increasingly liberalising all over the world. For example, on March 30, 2008, the open skies agreement between Europe and the USA went into effect, allowing airlines based in the USA and Europe to fly between any two airports in each region.

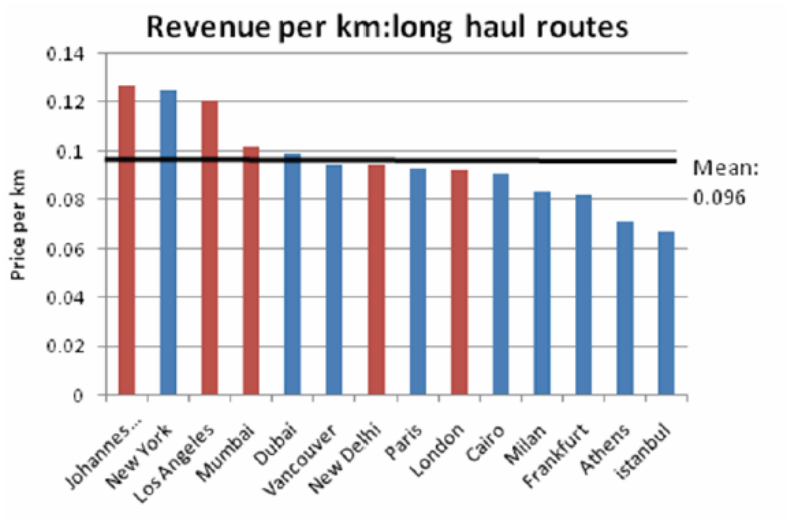
Open skies in Australia would allow airlines to service directly other airports, besides Sydney, which is restricted for growth. As we saw earlier, international passenger growth has been faster in Melbourne than it has been in Sydney. Melbourne and Sydney are comparable in size and in terms of population. Melbourne Airport has few or any restrictions on its growth and yet, the number of direct flights from Melbourne international ports is significantly less than the number of direct flights from Sydney.



Source: Northern Winter Timetable 2007-2008 (29<sup>th</sup> October 2007- 29<sup>th</sup> March 2008), Department of Infrastructure, Transport and Regional Development.

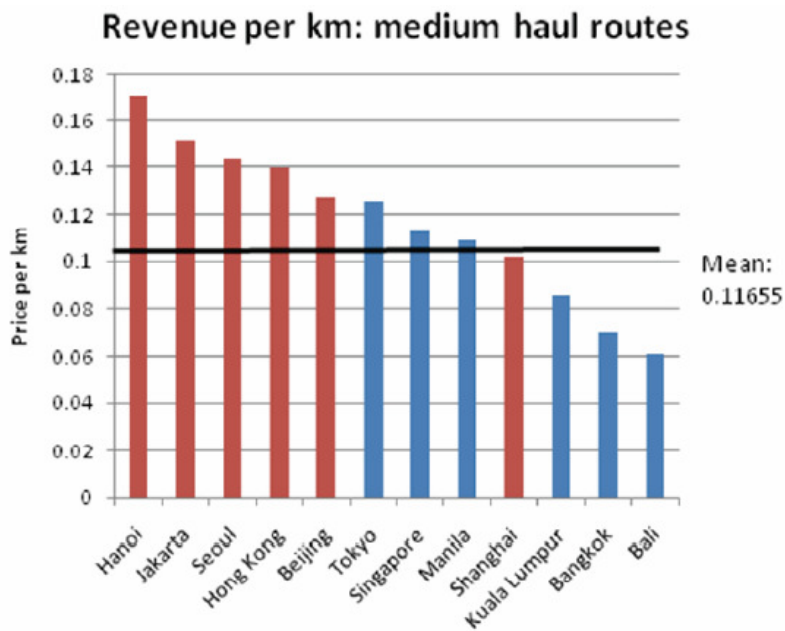
**Chart 1. Comparison of Direct Flights from Sydney and Melbourne**

The Committee also believes that an open skies policy would enable competition to remove pricing anomalies, as evidenced in Charts 2 and 3, below.



Source: University of Melbourne study team for the Committee for Melbourne 2008

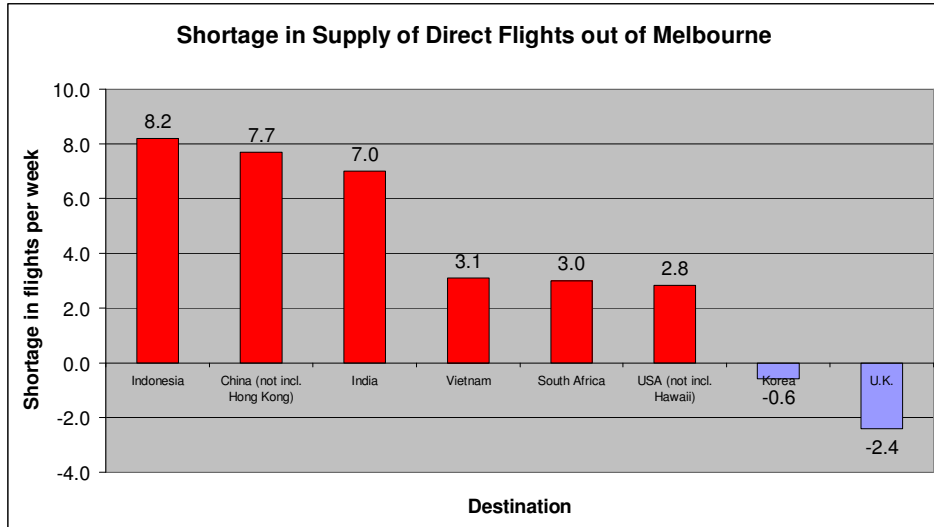
Chart 2. Revenue per kilometre on Long Haul Routes



Source: University of Melbourne study team for the Committee for Melbourne 2008

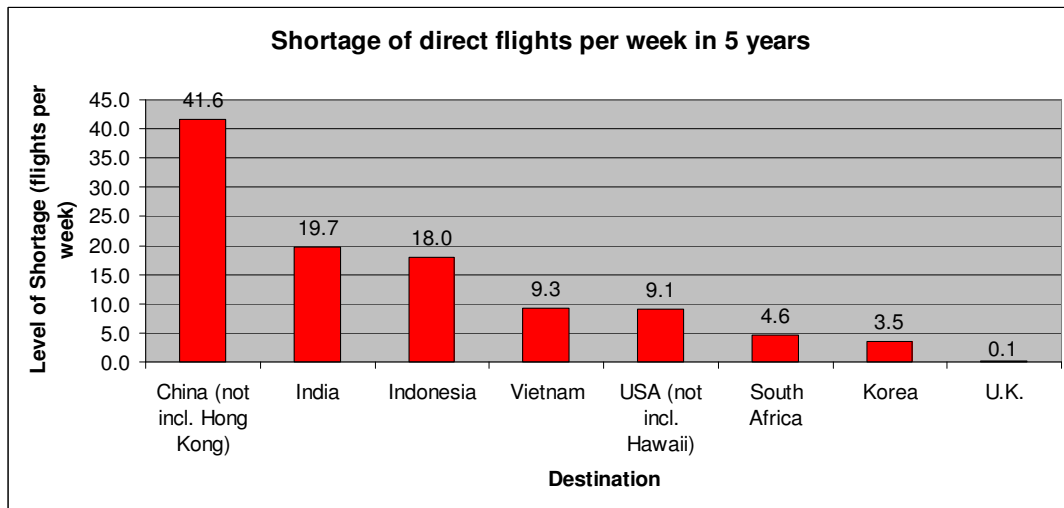
Chart 3. Revenue per kilometre on Medium Haul Routes

The Committee also believes an open skies policy would enable competition to fill service gaps – both current and emerging. The current gap is illustrated in Chart 4 (below), and an emerging gap is emerging in Chart 5 (also below). This analysis of service gaps is based on research for the Committee conducted by a study team from the University of Melbourne’s Faculty of Economics and Commerce.



Source: University of Melbourne study team for the Committee for Melbourne 2008

Chart 4. Shortage in Supply of Direct Flights out of Melbourne



Source: University of Melbourne study team for the Committee for Melbourne 2008

Chart 5. Shortage of Direct Flights per week in 5 years

Deregulation, which leads to increased services at lower prices, has undoubted economic implications. Lower flight costs and improved availability benefit the economy as a whole in the form of more tourism visitors, more business tourists and more business events. The Committee recommends the move to open skies to improve accessibility, leading to greater economic activity and therefore prosperity, for Australia.

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