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Dr Warren Mundy  
Commissioner  
Productivity Commission  
GPO Box 1428  
**CANBERA ACT 2601**

Dear Dr Mundy

Thank you for the opportunity to provide this submission for the Productivity Commission's research project examining Australia's international tourism industry.

As Australia's second busiest passenger and fastest growing international airport, Melbourne Airport plays a critical role in supporting the growth of Australia's international tourism industry. Our international passenger numbers increased by 9 per cent during 2013/2014 to reach 7.75 million passengers, and Melbourne increased its share of the international passenger market to 24 per cent. Key markets such as Singapore, Japan, Malaysia, Hong Kong and Taiwan all increased passenger numbers by 20 per cent or more.

Australia's aviation sector and airports will be crucial to the future growth of international tourism, and the Commonwealth Government has an important role to play in ensuring supportive policy settings are put in place, including greater liberalisation of international air services, support for airline marketing activities to attract and retain new air services, and providing the resources needed to support the efficient and visitor-friendly facilitation of growing numbers of international passengers.

If you require any additional information, please do not hesitate to contact Carly Dixon

Yours sincerely

**CHRIS WOODRUFF**  
**CHIEF EXECUTIVE OFFICER**

## **Introduction**

Melbourne Airport is Australia's second busiest passenger and fastest growing international airport. More than 31 million passengers travelled through Melbourne Airport in 2013/14, including 7.75 million international passengers, which was a 9 per cent increase on the previous year.

Aviation is highlighted as a priority in Tourism Australia's *Tourism 2020* strategy in order to meet the Tourism 2020 targets for visitor numbers. It states that Australia's international aviation capacity needs to grow by 40-50% to reach the Tourism 2020 goal. Our aviation sector, and airports, will need to grow considerably in order to reach this target.

## **Current regulation**

The current policy and regulatory regime has supported the growth of an efficient, customer-focused and competitive Australian airport sector.

The private operators of our major airports have made significant investments in aeronautical infrastructure to deliver increased capacity and improved service levels for airlines and passengers. The effectiveness of the privatised airport model was recognised in the Productivity Commission's ('The Commission') 2011 review of the economic regulation of airports.

In its submission to The Commission, the Commonwealth Government stated "Australia's major airports have continued to invest in, improve and operate aeronautical infrastructure to meet steady growth in the aviation market. Infrastructure Partnerships Australia, who reviewed Australia's infrastructure needs, noted shortfalls in all sectors (road, rail, ports, water and electricity), with the exception of aviation. They commented that "central to the demonstrated success of the airports over the last 10-15 years is the introduction of private sector funding and innovation within a light-handed regulatory environment. This has seen commercial decision-making normalised and has encouraged growth of innovation, flexible and commercial negotiations between airports and airlines."

Melbourne Airport is now embarking of the largest private investment of any airport since privatisation. Over the next 20 years over \$10 billion will be invested to enhance airside and landside facilities at the site. This includes additional airfield and terminal capacity to cater for the forecast growth in aircraft movements and passenger numbers. All of this investment is privately funded and will deliver significant economic and social benefits through the generation of additional jobs, international visitor expenditure and increased investment opportunities.

Visitor spending by passengers travelling through Melbourne Airport alone is forecast to grow to \$18.5 billion per annum by 2033 (domestic and international).

### Growth of international markets

Melbourne Airport is the primary gateway for international visitors to Victoria.

During 2013/14, international passengers travelling through Melbourne Airport increased by 9.7% to a total of 7,762,474 passengers. Overseas inbound passengers accounted for 42.6% of all international passengers in 2013/14. This is an annual growth rate of 11%. For these inbound passengers, the main reason for travel was leisure (38%), followed by Visiting Friends and Relatives (VFR) (29%) and education (10%).

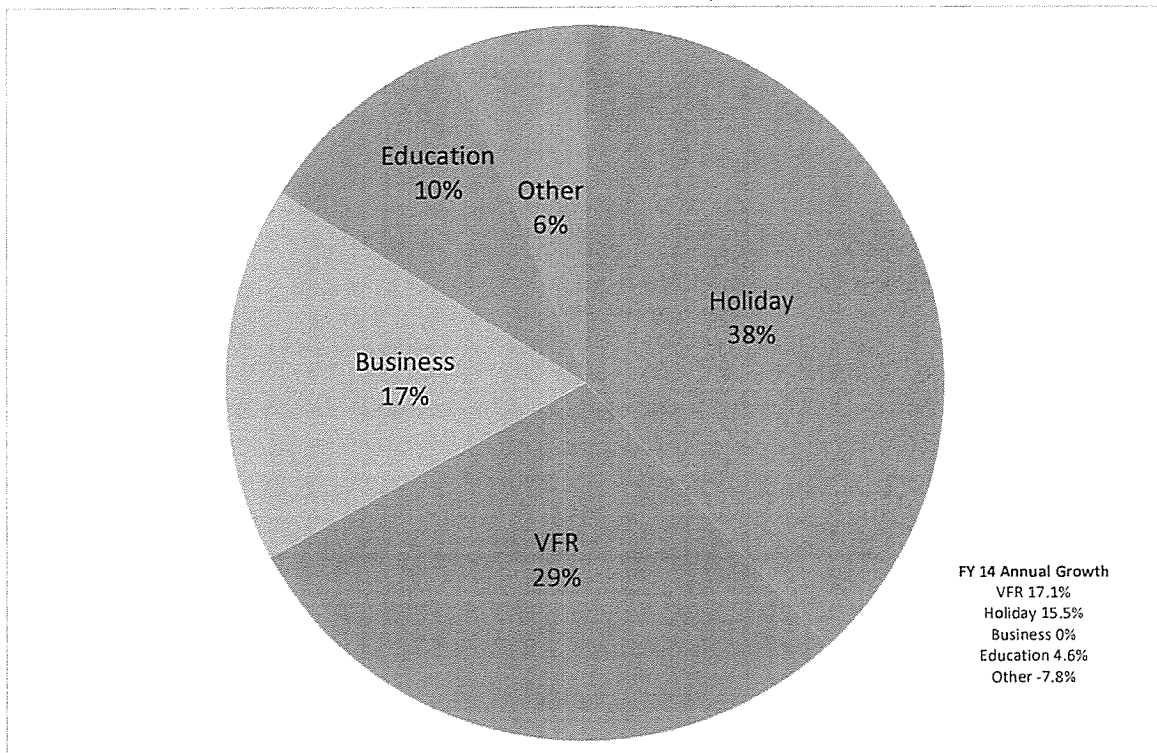
Melbourne Airport's top ten source markets for international passengers were New Zealand, China, the USA, UK, Indonesia, Malaysia, Thailand, Singapore, India and Hong Kong. These markets all have a growth rate above 10%.

The primary driver of international passenger growth has been the capacity of the Asian markets. Interestingly, for the Asian markets, the 0-17 age segment has grown the largest indicating that more families are travelling to Australia than previously. This highlights changing pattern for demand for Australian tourism services, including changes in the country of origin. It is therefore critical that Australian tourism operators focus on the opportunities arising from these markets.

### Top Overall Country Markets

Country	FY 2014 Passengers	Annual Growth	5 Year Average Growth	FY 14 Market Share	Cummulative Market Share
New Zealand	1,232,055	4.1%	4.9%	16%	16%
China	781,026	12.0%	15.5%	10%	26%
United States of America	600,802	6.7%	10.8%	8%	34%
United Kingdom	585,934	10.3%	6.1%	8%	41%
Indonesia	489,759	13.4%	20.5%	6%	48%
Malaysia	412,071	21.0%	10.4%	5%	53%
Thailand	410,271	2.0%	11.2%	5%	58%
Singapore	349,194	21.5%	10.0%	4%	63%
India	344,725	9.6%	11.1%	4%	67%
Hong Kong	225,917	12.9%	6.3%	3%	70%
VietNam	213,257	5.8%	10.3%	3%	73%
Fiji	159,340	4.8%	17.7%	2%	75%
Italy	158,299	12.7%	10.1%	2%	77%
France	136,746	7.0%	11.8%	2%	79%
Germany	136,144	10.5%	8.8%	2%	80%
Philippines	110,080	6.2%	12.7%	1%	82%
Japan	100,060	50.5%	15.0%	1%	83%
Sri Lanka	90,457	9.5%	14.9%	1%	84%
Canada	85,414	10.6%	6.0%	1%	85%
Taiwan	65,324	15.6%	14.8%	1%	86%
Others	1,075,599	8.2%	7.8%	14%	100%
<b>Total</b>	<b>7,762,474</b>	<b>9.7%</b>	<b>9.7%</b>		

## Reasons for Travel



### Changing mix for international aviation

We have witnessed significant changes in the international aviation industry in recent years, with foreign international carriers increasing their market share (refer to confidential appendix A and B), as well as the increasing importance of so-called 'low cost carriers' (LCCs).

The diversification of market share among foreign carriers has seen airlines in the Middle East and China now accounting for larger shares of the Australian international passenger market. Passengers are sensitive to both price and service quality and now have more options to choose from when purchasing their air travel. The rise of online booking services has also enhanced the ability of the passenger to 'shop around' for the most competitive and convenient travel option.

It is important to note that Australian outbound travellers have benefitted as much from the growth in international air services as have inbound travellers. In fact, according to ABS data, the number of Australians travelling overseas has exceeded that of international visitors to Australia by about 2.4 million passengers a year.

Strong growth in outbound travel by Australians is important however to support those international air services which also enable growth in international visitor numbers. It is important for airlines to be able to maximise their passenger loads and yields in both directions.

## **International air services agreements**

International air services agreements are a key driver for the Australian economy as they facilitate the movement of people and freight. When air services agreements act as a constraint on certain international routes they effectively act as a trade barrier in much the same way as a quota or tariffs.

Where airlines cannot secure additional capacity within air services agreements they will restrain growth in services or redirect their assets (aircraft) to other markets where there is potential for expansion.

Greater liberalisation of air services agreements is critical to grow the economy and support the increased movement of people and trade with the commensurate broad economic and social benefits for Australia.

Many of our key growth markets including China, Malaysia and the Philippines are subject to capacity constraints imposed by air services agreements. The Australian Government needs to continue to be proactive in negotiating increased capacity into these markets to support increased tourism and trade flows, well ahead of demand.

## **Visas and passenger facilitation**

### ***Visas***

The growth in visitor numbers from China and India is providing new opportunities for Australia's visitor economy.

The China-Melbourne market experienced 11% growth for the year ending September 2014, to 803,000 passengers. China is now Melbourne's top long-haul visitor market and second only to New Zealand. Over the past 3 years, the Melbourne-China market has grown 42 per cent. China is now the most important international overnight visitor market for Victoria's tourism industry.

The India - Melbourne market experienced 7.5% per cent growth for the year ending September 2014, to 348,000 passengers. Over the past 3 years, the Melbourne-Indian market has grown 29%. China is now the most important international overnight visitor market for Victoria's tourism industry.

Melbourne Airport has worked closely with Chinese and Indian airlines, and national and provincial governments to strengthen aviation ties between Australia and China, including the attraction of more direct services to Melbourne to support our expanding trade, business, tourism and education relationships.

Melbourne Airport welcomed the Commonwealth Government's announcement in February 2014 of new three year multiple entry visitors for Chinese visitors. These changes have already started to have flow-on economic benefits to the tourism industry, including airlines, hotels, restaurants, the business event sector and other providers catering to Chinese visitors. The multiple three year entry visas increase the prospect of repeat visits to Australia.

It is also critical that Australia and New Zealand work collaboratively on this issue. The success of the coordinated approach is demonstrated by the US and Canada through the China Transit Program (CTP), which streamlines visa process for Chinese travellers going into Canada, who hold a valid passport; hold a valid US visa and travel on an approved airline or transit through an approved Canadian Airport. There is scope for Australia and New Zealand to make it easier for Chinese visitors to both countries to experience easier transit arrangements that do not require a transit visa.

It is also noted that in the UK, Chinese and Indian passport holders may be valid for transit without visa concessions if they arrive and depart by air; have a confirmed onward flight which leaves within 24 hours; and have the correct travel documents for their destination (e.g. a visa for that country).

### ***Passenger facilitation***

The efficient facilitation of international passengers through Australia's immigration and border protection processes is a contributing factor to the overall experience of international visitors. Melbourne Airport welcomes the future directions being established by the Department of Immigration and Border Protection for passenger facilitation at airports, including greater use of technology such as Smart Gate and making this more widely available to overseas visitors. It is important for the growth of international tourism and Australia's reputation as a welcoming and visitor-friendly destination that further enhancements be made to passenger facilitation and that border agencies are appropriately resourced to deliver better people and technology outcomes.

However, the Commonwealth Government should resist the temptation to apply further increases to levies such as the Passenger Movement Charge (PMC) which could act as a disincentive for travel to Australia, particularly when the Commonwealth already significantly over collects revenue from the PMC compared to its expenditure on passenger facilitation at international airports.

## **The Role of Government**

The growth of international tourism depends on a number of public and private sector participants. Government in particular has an important role to play in ensuring the most appropriate policy and regulatory settings are in place to facilitate future growth, including support for tourism marketing and the development of new aviation services.

Melbourne Airport has worked productively with industry partners and government in supporting the marketing of the destination to international visitors. The 'Team Melbourne' approach supports a coordinated and consistent message to international airline partners and prospective visitors and allows us to harness the expertise and resources of a number of industry participants to boost international visitor numbers. Organisations such as Tourism Victorian and Destination Melbourne are important partners in this endeavour.

A collaborative approach is also important to ensure that Melbourne and Victoria compete successfully against other Australian destinations for international air services. There is vigorous competition among Australia's international airports to attract new carriers and services. A collaborative approach with tourism industry partners helps to ensure the best business case is put forward to airlines to demonstrate the potential of the Melbourne market.

## **Airport Safeguarding**

Melbourne Airport's passenger numbers are forecast to double over the next two decades to around 64 million passengers a year by 2033. In addition to investment in new infrastructure to facilitate this growth, it is also critical that the airport's operations are properly safeguarded into the future to prevent the introduction of any operational constraints which will inhibit the airport's contribution to the growth of international tourism.

Safeguarding the airport is an ongoing and shared responsibility between all levels of government and the airport. There is strong support from government for airport safeguarding, through guidelines such as the National Airports Safeguarding Framework (NASF) and the relevant state planning frameworks. It is important to note there is no national statutory framework for airport safeguarding, rather it is up to individual jurisdictions to put in place the necessary measures.

Melbourne Airport's curfew-free operation is a strategic and competitive advantage for the state of Victoria, particularly in supporting the growth of air services to long haul destinations. It also provides passengers, including international visitors, with greater choice of carriers and

services. It enables airlines to include Melbourne as part of their global network and maximise utilisation of their expensive aircraft assets.

## **Conclusion**

Australia's international airports have played a crucial role in supporting the growth of international tourism in Australia. The program of investment planned by Melbourne Airport will continue to drive future growth in international tourism in Australia by ensuring that our airline customers and passengers are provided with world-class and highly competitive airport services that have the capacity to support growth in international passenger numbers. It is important that the Commonwealth and State government continue to create a policy and regulatory environment that supports this investment and growth potential.