

BRISBANE AIRPORT CORPORATION

SUBMISSION TO PRODUCTIVITY COMMISSION REVIEW INTO AUSTRALIA'S INTERNATIONAL TOURISM INDUSTRY

2014

INTRODUCTION

Brisbane Airport (BNE) is Australia's third busiest airport by passenger numbers, and the second busiest by aircraft movements. Twenty-eight airlines service 67 domestic and international destinations from BNE, carrying around 22 million passengers in FY14.

Four hundred and twenty businesses, employing more than 21,000 people, operate on the BNE site, all of them reliant to a significant extent on the success of Australia's tourism industry. By 2034 the number of jobs on airport is predicted to rise to 52,000 as passenger numbers increase to 48 million. With this growth will come even greater economic benefit to the state and nation. By 2034 Brisbane Airport will drive an annual economic impact of around \$8.2 billion to Queensland and \$13.4 billion to Australia.

But this forecast growth is not guaranteed. It will require investment from both the private and public sectors in ensuring Australia remains a competitive travel destination. Brisbane Airport Corporation (BAC) is a major investor in the Australian tourism industry through the provision of aviation facilities and investment in airline services to BNE. With a forward capital program of more than \$3.8 billion in the coming decade, BAC strongly endorses the Commonwealth's investment in visitor market stimulation through Tourism Australia, and encourages streamlining of the Commonwealth's international visa and border programs in recognition of the intense competitive nature of the global tourism industry.

Visitor growth

The tourism industry, both leisure and business, plays a vital role in the Australian economy. As has been stated by many submissions to this Review, the tourism sector contributes more than \$90 billion annually to Australian gross domestic product (GDP), which represents more than 5 per cent of the Australian economy. More than 900,000 Australian jobs are attributable to tourism.

BAC endorses the submission of the Australian Airports Association (AAA) that reflects the key role that airports play in both international and domestic tourism, and its recommendations that in order to achieve the Government's Tourism 2020 targets, the following is essential:

- the Commonwealth Government continues to provide adequate funding to Tourism Australia to ensure Australia continues to be marketed as an attractive international destination;
- Air Service Agreements be liberalised to facilitate greater economic and social benefits, particularly in capacity constrained Asian markets;
- the Passenger Movement Charge, as well as visa fees and charges, be decreased to stimulate economic growth through increased international travel; and

- appropriate planning frameworks be in place across all jurisdictions to protect the future operation of Australia's airports.

BAC is a supporter of Tourism Australia's Tourism 2020 strategy, through which Government has committed to the target of doubling overnight visitor expenditure by the end of the decade to more than \$115 billion, with \$63.4 billion to be achieved through inbound international tourism.

BAC endorses the view of the AAA in its submission that in order to meet these ambitious targets, Australia's aviation sector and its airports will need to continue to grow substantially. This growth can only be achieved in an environment where investment certainty can be provided through policy and regulatory frameworks that are conducive to, and recognise the need for, continued growth in the international tourism sector.

The role of government

The marketing of Australia internationally as a travel destination is absolutely essential. With a hugely diverse product offering, a limited and in some cases shallow market understanding of that offering, and a highly competitive marketplace, it has long been recognised that Australia needs a centralised, Commonwealth funded tourism marketing agency. In one form or another such an agency has existed in Australia for more than half a century and today it operates as 'Tourism Australia' (TA).

TA plays a critical role in driving demand and supply for Australia as a travel destination. This is achieved through trade and consumer marketing, ensuring Australia is a buy-able option for overseas buyers, through its work with the aviation sector and the travel distribution system, and is a desired product, through its development of the national destination 'brand' and promotion of it.

As the AAA's submission states, the relatively modest government investment in global marketing activities through Tourism Australia delivers a \$42 billion return in direct GDP. Just as importantly, the demand for travel to Australia that is generated by Tourism Australia in turn supports ongoing investment in Australia's aviation infrastructure by airport operators.

The Commonwealth's annual investment in Tourism Australia of around \$194 million is dwarfed by the private sector's investment in tourism infrastructure and marketing but is essential in that it is directed at the one role that private enterprise cannot perform – that of provision of a single, unified 'brand' marketing approach for Australia.

BAC notes TA's own submission which reveals that its promotion of Australia generates tourism expenditure (the Return on Marketing Investment, or ROMI) in a ratio of 15:1. This converts into a cost:benefit ratio of 6:1 after allowing for displacement effects, crowding out and the marginal cost of public funds, or MCF). BAC endorses TA's statement that this ratio of 6:1 represents an important contribution to Australians' living standards and proof that government can perform this role effectively.

BAC also notes the submission of the AAA that makes the observation that the Commonwealth's investment in driving future demand for Australia as a destination is essential to ensure continued private investment in Australian airport infrastructure.

As the AAA states: “All of Australia’s international gateway airports are privately operated under lease from the Commonwealth. The operators of these airports are investing tens of billions of dollars in aeronautical infrastructure to keep Australia connected to the rest of the world. The forecast growth in demand for international passenger travel to Australia supports this ongoing investment by airport operators.

“In addition to generating demand for travel to Australia, Tourism Australia’s marketing activity enables cooperative marketing arrangements with international airlines, further stimulating demand and the supporting the development of new routes for aviation services. This helps bring more international visitors to Australia, and also provides Australian travellers with a greater range of competitively priced aviation services to an increasing number of international destinations. The dispersal of international visitors around Australia is also vital to regional airports by supporting demand for travel to those destinations, in addition to domestically-generated demand.

“In addition to the tourism benefits, international air services are also critical to enabling the delivery of high value exports to overseas markets which are carried as air freight. The majority of international air freight is carried on passenger aircraft. So, it could be argued that the Commonwealth Government’s investment in tourism marketing through Tourism Australia also delivers indirect benefits to Australian exporters by facilitating reliable and efficient access to global markets.”

The effect of aviation policy and regulation

Whilst the value of tourism to the Australian economy, and the highly competitive nature of the global tourism market appears to be well recognised in government policy relating directly to tourism promotion, it is less obvious that such realities are prioritised in aviation policy and regulation.

BAC supports the AAA’s contention that there are two main areas that would benefit from review and amendment: the policy settings for international air service agreements; and certain border fees and charges.

BAC notes also the submission of the Queensland Government and, in particular, its Recommendation 8, which states that “The Queensland Government considers government and industry should continue to work together to improve passenger facilitation at international airports while ensuring the integrity of Australia’s quarantine and security regime remains a priority.”... “Given the highly competitive environment in which tourism operates, any perception that Australia’s visa system is more complex or lengthy than competitor destinations may cause potential visitors to choose another destination. Visa processing requirement for vital source markets, particularly China, must be as efficient as possible when compared with competitor (destinations). The use of technology (eg online lodgement) should be a key part of this process.”

BAC also commends to the Commission the recently released TTF report *Visitor Visa Reform: Reducing the barriers for travel to Australia*, which clearly shows Australia’s declining position compared to other nations competing for the international tourist dollar and which makes seven key reforms which BAC endorses.

Air Service Agreements

International air services are vital for the Australian economy through tourism, trade and merchandise exports and to facilitate non-tourism related activities such as education, medical and business connections. Consequently, the Commonwealth's regulatory position on Air Service Agreements (ASAs) is of great economic and social importance for Australia.

The AAA, of which BAC is a member, has recognised the importance of the regulatory framework around ASAs and is working with Deloitte Access Economics (DAE) to examine the potential economic impacts of liberalised ASAs. As the AAA submission notes, whilst this report is still a work in progress, there are several important findings that can be summarised as follows:

“Given that international air services are a key component of the Australian economy, when ASAs act as a constraint on certain international routes, they effectively mimic the imposition of a trade barrier such as a quota or tariff. The result is reduced economic activity and lower living standards of Australians.

“As well as reducing the number of inbound tourists (and the resulting flow-on losses to the tourism sector), capacity constraints increase the costs for Australian travellers and freight leaving the country and discourage foreign investment. The AAA report under development with DAE estimates the increase in tourism and freight activity that might flow from liberalising ASAs at Australia's major airports. It shows that the economic benefits of this activity are likely to be large and will accrue widely across the community as increased GDP, larger government tax collections and increased employment.

“While many new ASAs have recently been negotiated, the AAA believes there are several destination markets where the current agreements are at risk of constraining aviation activity to lower levels than would otherwise be achieved by market forces, this is particularly the case in key growth markets throughout Asia, such as China.

“The AAA believes that there are a number of significant economic benefits that stand to be realised by liberalising the current policy settings for ASAs and recommends that the Commonwealth Government consider reviewing its policy framework to ensure that Australia meets its Tourism 2020 targets and continues to grow into the future.”

Brisbane and bilateral aviation rights

Brisbane Airport's particular circumstances in relation to Bilateral Aviation Rights is also worthy of consideration in this review, in that the current framework is not serving the broader interests of Queensland and Australia.

Brisbane Airport is in a unique competitive position among the Australian designated gateway airports (Sydney, Melbourne, Perth and Brisbane) in that it faces competition for air services from other international, but not 'designated', airports in Queensland .

As a designated airport BNE faces the competitive constraint that comes with Air Service Agreements that the other Queensland airports do not face, whilst consumer demand for services into and out of Brisbane would indicate that these constraints do not serve the consumers' interests.

Further, to the extent that limits on international air rights under Air Services Agreements are retained by the Commonwealth as a protection for the local carrier, Qantas Airways, the rationale for Brisbane to be captured within the constraints is questionable in the context of Qantas' increasing focus on Sydney as the hub for its international services.

Since 2005, the number of international destinations serviced by Qantas from BNE fell from nine to five (in 2014). One of these flights (Queenstown NZ) operates only during the winter ski season. Qantas operates 18 international direct flights from Sydney, compared with Brisbane's five per week.

Limits on services to designated airports create conditions of artificial scarcity that can create an incentive for incumbent carriers to foreclose markets by "warehousing" limited rights. The more airports that are included in the list of designated airports, the greater the impact of these activities.

There is also evidence that the limits on flights to designated airports has a severe distortionary effect in the ability or willingness of airlines to align capacity to Brisbane in a way that reflects the relative size of the Brisbane market. For example, there is almost twice the capacity from Malaysia to Adelaide as there is to Brisbane, and more capacity from Malaysia to the Gold Coast than Brisbane. Melbourne, Perth and Gold Coast are over-served for KUL relative to their market size and as a consequence may well be experiencing poor ticket yields.

BAC submits that these discrepancies can only be explained by the fact that Brisbane is a designated airport and the limited flights allowed to designated airports are predominantly directed to Sydney and Melbourne. This clearly must disadvantage consumers in the Brisbane Airport catchment who receive not only no benefit from the generally not unreasonable protection of Qantas, but also suffer a disproportionately small number of services from other international carriers as a result of Brisbane's classification as a designated airport.

These disparities further suggest that there could be unsatisfied international passenger demand that could be unleashed if international airlines were able to offer more capacity direct or closer to locations international travellers want to reach.

BAC is therefore of the view that these issues of market distortion need to be addressed by the Commonwealth, particularly in the context of the proposed development of the second Sydney airport.

Border fees and charges

BAC notes the comments in relation to border fees and charges by the AAA in its submission.

As the AAA states, the Commission would be aware there is currently a Joint Review underway into border fees, charges and taxes. That review is focused on identifying where the current border charging arrangements can be improved to better support future border operations and outcomes for industry.

The AAA participated in the Joint Review and identified two major charging arrangements that are barriers to international tourism: the Passenger Movement Charge (PMC), and the visa fees and charges for certain markets.

BAC endorses the AAA's comments on these issues in their entirety.

The effect of land-management policy regulation

BAC also endorses the AAA's submission in relation to the vital role of land-management policy regulation to protect the on-going role that airports play in economic growth, including in tourism.

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