NOTES & COMMENTS

Liberalise Landing Rights *Before* Selling Qantas!

Greg Cutbush

Mid-1991 could be a turning point in Australia's aviation history. If current airline policy is appropriately reformed, there could be a new dawn for international passengers, with more flights and lower fares becoming progressively available as a new, corporatised Qantas is forced to compete with other airlines. Without reform, Qantas's monopoly over international air traffic in Australia could become irrevocably entrenched.

Qantas is about to be part-sold. Employee share schemes are to be included in the sales arrangements. If less than the 49 per cent non-government share limit is taken up, the difference will be made up in share offers to the general public, probably early in 1992.

Welcome as the revenue from this part-privatisation of Qantas may be for budget officials, the exercise is likely to be bad news for tourism and the travelling public. This is because the share sale is to be accompanied by a guarantee that the policies that give Qantas the whip hand over landing rights will remain in place, at least for the life of the present parliament. This means that, besides its material assets (aircraft, buildings, and a refurbished bank account), Qantas will be sold complete with protection from new entrants on routes to and from Australia. This is a valuable privilege that will significantly boost Qantas's share value. However, that financial advantage and the additional income that Qantas will earn from overcharging foreigners will be outweighed by losses to Australian business and the travelling public who also use international air services. The overall impact on the community will be negative.

The ASA Game

At issue is the Commonwealth government's participation in an international game involving bilateral air service agreements (ASAs). Like other countries that signed a 1944 Chicago agreement, Australia grants foreign airlines scheduled landing rights to pick up and put down passengers in Australia so long as their air fares and seat numbers are not too competitive and their home countries grant Qantas the return favour of landing rights via an equivalent route.

Australia has ASAs with about 30 countries and less formal arrangements with several others. Since each ASA is negotiated bilaterally, details can differ. The essential thing is that only the demand that can be expressed at protected seat prices is met.

ASAs attract little publicity, for two reasons. First, each ASA takes the written form of a Memorandum of Agreement that is not open to public scrutiny. The Department of Transport and Communications negotiates them on Australia's behalf with the assistance of Qantas. Officially, ASAs are not secret, but in reality ordinary travellers have little way of knowing how ASAs are shaping of the air travel conditions they endure.

Second, the major tourist bodies, which are probably the best-informed groups about, and the most interested groups in, air-service policy, are reluctant to criticise publicly the current arrangements. Qantas is a member of their organisations and could damage tourism generally or even retaliate against individual operators by withdrawing its overseas promotional support. Qantas's privileged access to Australian airports and foreign destinations gives it an iron grip on international tourist and business traffic.

The IAC Report

The best available research on the subject is a 1989 report *Travel and Tourism* by the Industry Commission's predecessor, the Industries Assistance Commission (IAC). During its inquiry, the IAC was evidently allowed to inspect some ASAs, and it concluded that under the conditions prevailing at the time elimination of ASAs would have reduced air fares by at least 20 per cent.

Some observers argue that a 20 per cent premium is acceptable; that air travel is for the affluent and is inelastic with regard to price. Not so, claimed the IAC: tourism suffers badly. Moreover, higher fares raise costs for Australian industries that use air services — and most of them do. In addition, productivity gains are forgone because Qantas operates in a protected environment. The net loss to the community runs into hundreds of millions of dollars.

The IAC easily rebutted Qantas's defence of the ASAs. The airline's assessment of the benefits and costs omitted the burden on Australian travellers — which at $170 million was the largest item in the equation; its assumptions about the price sensitivity of tourist demand were dubious; and its claim that the existence of unused landing rights proved that there was no restraint on traffic was shown to be false and, indeed, to amount to further evidence that airlines which hold exclusive bilateral rights were exploiting their monopoly power.

Business As Usual

Faced with such embarrassing findings, in 1989 the government announced in the middle of the IAC inquiry a new policy on ASAs, asserting that greater attention would henceforth be paid to a wider range of

views than just Qantas's. Yet the new policy statement revealed a continuing disregard for the travelling public. Tourism and trade views were mentioned, but not those of consumers. In addition, rules protecting Qantas and other scheduled airlines from charter competition were retained.

It is easy to find evidence that since mid-1989 protection of Qantas has continued much as before. In early 1991, for example, an opportunity to break Qantas's monopoly over Australian ASAs was missed when the government gave Australian Asia Airlines, Qantas's fully-owned subsidiary, the right to offer reciprocal flights to Taipei ahead of the aspiring private sector contender, Australian Worldwide Airlines. So not only does the Australian government continue with its dubious ASA policy; it allows only one Australian airline — Qantas — to benefit by it.

Another example of the government's tolerance of elements of monopoly in aviation is Qantas's flight-sharing arrangement with Air New Zealand, announced in March 1991. The anti-competitive flavour of this deal caused alarm on both sides of the Tasman Sea. But official investigations by Australia's Trade Practices Commission (TPC) and New Zealand's Commerce Commission have been confined by legal pettifoggery to secondary matters such as cross-ownership. It is not clear that either body has jurisdiction over extra-territorial commerce. More significantly, neither body can challenge arrangements that are sanctioned by the law: and the law sanctions the ASAs that limit entry into the trans-Tasman route. The surveillance of competition by the TPC and the Commerce Commission can be somewhat cosmetic, as the TPC has itself recently recognised in its recent statements suggesting that the Trade Practices Act be extended to allow monitoring of statutory bodies.

Interestingly, the history of the TPC's surveillance includes the authorisation of several of Qantas's commercial arrangements. Until they all expired in 1989, there were no fewer than 29 authorisations involving some 20 carriers. Qantas has evidently seen no need to lodge any further applications since that date. This may not be surprising given that the TPC has not, in the 16 years of its existence, challenged any of Qantas's commercial agreements.

Avoiding Policy 'Lock-In'

If Qantas is part-privatised with its monopoly arrangements intact, the new shareholders will become another special interest group, in addition to current employees and management, opposing the removal of Qantas's protection. There is thus a serious risk that, just when widespread enthusiasm for microeconomic reform seems likely to challenge Qantas's privileges, the old bilateral approach to determining Australian landing rights will become further entrenched.

This is not to deny that privatisation of Qantas, whenever it occurs, will bring some benefits. Although only 49 per cent will be owned by non-government parties, the terms of the sale ultimately may be such that these minority shareholders will be given *de facto* managerial control (though without quite the degree of responsibility they would have had if the company were completely divested). The scope provided by the forthcoming share sale for different parties to compete for the managerial function will spur increased productivity. But why go ahead with this part-privatisation at a time when the rules are all wrong? This will only increase the danger of those bad rules being locked in.

The government has it within its power to avoid the lock-in problem by setting a timetable for dismantling the ASA system **before** Qantas is privatised. Otherwise, far from representing a new dawn for passengers, privatisation could lead to an indefinite continuation of Qantas's existing privileges, to the detriment of the entire Australian community.

Those who protest that cutting Qantas's umbilical chord is a 'pie in the sky' notion, which would court disaster, should consider the recent words of Sir Christopher Tugendhat, Chairman of the UK Civil Aviation Authority. During an address in May this year to Britain's Institute of Economic Affairs he pointed out that the UK's multi-airline policy has delivered the cheapest originating flights in Europe. By contrast '. . . not only is the concept of national champions a discredited relic of the 1970s, it is also against the consumer and, I believe, the national interest', he said. Australia could do with some of Tugendhat's medicine.

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Constitutional Consequences of the EC Social Charter

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The Single European Market Act, providing for the completion of the internal market of the European Community (EC), is intended to lead to the widespread liberalisation of the EC economy by the end of 1992. However, some of the recent policy proposals emanating from the EC Commission point in the opposite direction.

While the Cecchini Report predicts substantial intra-EC gains from removal of non-tariff barriers in the run-up to 1992 (Cecchini, 1988), the spirit of free trade contained in the Single Market Act is challenged by proposals contained in the EC Social Charter. These proposals may set limits on access to EC markets by non-members, leading to a 'Fortress Europe'. A more remarkable irony is that the expected gains from 1992