

8 December 2023

Department of Infrastructure, Transport, Regional Development,
Communications and the Arts
GPO Box 594
CANBERRA ACT 2601

Via email: internationalaviation@infrastructure.gov.au

Dear Director,

Fiji, Indonesia and Malaysia Air Services Arrangements

Thank you for the opportunity to comment on the proposed forward negotiation program for bilateral air services arrangements with Fiji, Indonesia and Malaysia. The Australian Travel Industry Association (ATIA) is the peak body for a broad array of Australian travel professionals. Our membership base includes the full spectrum of travel intermediary businesses across Australia including retail, corporate and online travel agents, tour operators, wholesalers and consolidators. As the number one seller of air tickets to Australians, we are uniquely placed to contribute to the discussion on these arrangements.

As a general comment, international aviation is an integral part of Australia's connectivity and appeal to the world. It supports our migration system and our international tourism industry. Promoting strong two-way travel is essential to the tourism, hospitality and travel sectors' growth. Australians travelling overseas also, directly or implicitly, promote Australia as a travel destination to those with whom they interact, and outbound travel diplomacy also provides an opportunity for Australia to consolidate its role in the Indo-Pacific region and create mutual benefits with our neighbours.

ATIA supports the continued policy of negotiating bilateral air service agreements that provide 'capacity ahead of demand', as current capacity constraints on routes with strong demand have resulted in higher prices for Australian consumers. The most effective option to increase capacity and allow it to adapt to demand variation over time, is the negotiation of adequate capacity limits that offer significant margin for growth.

In the Aviation Green Paper, the Government acknowledged a continued commitment to the policy to negotiate bilateral agreements that provide 'capacity ahead of demand.' This is a positive sign, and even more important as the aviation and travel industry recover from the impacts of the COVID pandemic travel restrictions.

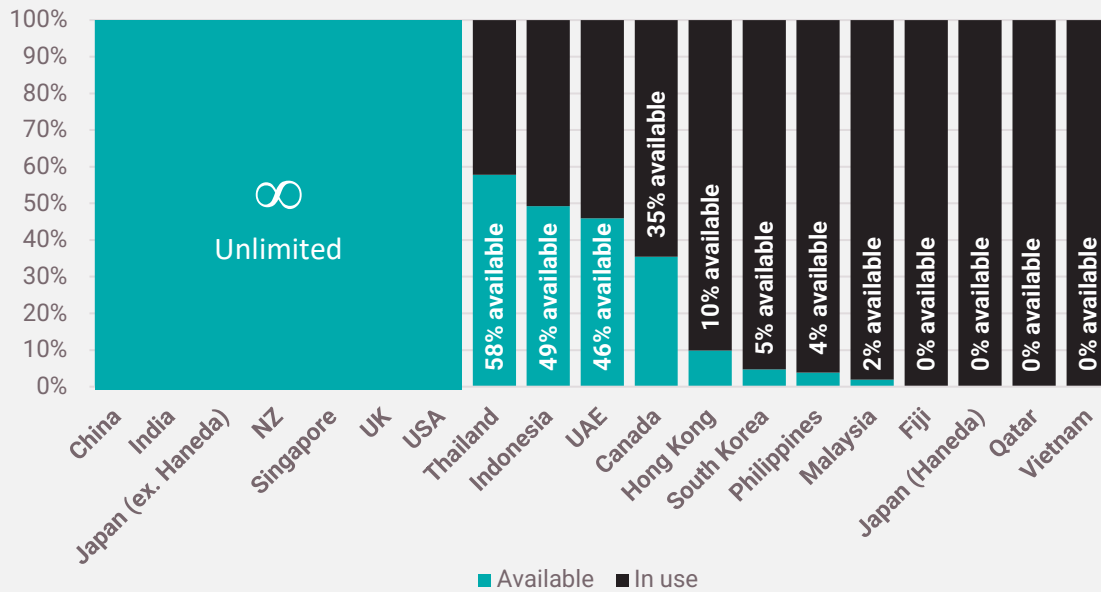
Over the past decade there has been significant improvement in bilateral capacity, enabling greater travel opportunities to Australians and facilitating international visitors to our shores. However, since the COVID pandemic the bilateral system has not enabled the recovery of supply of air capacity to ensure supply is ahead of demand.

Specifically in relation to Fiji, Malaysia and Indonesia, it is clear that the current capacity levels are reducing the level of competition to provide services between these countries. ATIA supports an appropriate increase consistent with the approach of providing 'capacity ahead of demand'. In the latest documentation from the Department of Infrastructure, Transport, Regional Development, Communication, and the Arts for the Northern Winter 2023 season, it is clear that Fiji (Australian Majors) has reached the capacity limits of the relevant air services agreement. There is 2% available capacity for Malaysia, and 49% available for Indonesia. Further detail on each of these is provided below.

In addition to consultation with industry, ATIA submits that the ACCC should be consulted so that it can provide its expertise on competition related matters, with its advice fed into this air service agreement negotiation process. This was also reflected as part of the recommendations of the Select Committee's Inquiry into Commonwealth Bilateral Air Service Agreements.

Lastly, it is apparent from **Figure 1** that there are a number of other markets that have remained at or near capacity, including Japan (Haneda), Qatar and Vietnam. The Government may wish to consider additional countries to explore discussions with in terms of forward negotiations to increase competition to lower prices for Australians and international travellers who wish to visit Australia.

Figure 1: Available capacity in selected Australia bilateral air services agreements - Northern Winter 2023-24 season



Source: [Growth Potential for Foreign Airlines](#)

Fiji

Data submitted in *Growth Potential for Foreign Airlines* by the then Department of Infrastructure and Regional Development to the 2015 Productivity Commission *Research paper on Australia's international tourism*, shows that at the time, Fiji had only 2% growth potential (ratio of available capacity in use), with 123 seats available each week under capacity limits.

A similar document for the Northern Winter 2017-18 and 2019-20 seasons shows incremental increases in seat capacity to/from Fiji to Australian majors that is rapidly filled to near or close to capacity.

The most recent document from the Department of Infrastructure, Transport, Regional Development, Communication, and the Arts for the Northern Winter 2023 season shows that Fiji (Australian majors) has reached the capacity limits of the relevant air services agreement.

Fiji was the sixth most visited country by Australians in 2022.¹ The latest data shows that demand for travel to Fiji by Australians exceeded pre-pandemic levels by 10.9% according to the latest data as of September year end.² When comparing travel in the month of September 2019 to September of 2023, total number of Australians travelling to Fiji is up 25%.³

¹ Nielsen, Nielsen data reveals Australia's changing travel trends and the brands spending big to attract Aussie tourists, accessed 17 November 2023, citing ABS Overseas Arrivals and Departures.

² ABS Overseas Arrivals and Departures, Australia, September 2023 (accessed 7 December 2023). Total number of travellers to Fiji 2018/19 was 344,480, compared with 389,170 in 2022/23.

³ ABS Overseas Arrivals and Departures, Australia, September 2023 (accessed 7 December 2023). Total number of travellers to Fiji September 2019 was 28,890, compared with 36,100 in September 2023.

Data suggests that demand will continue, and Fiji has been named as one of the popular destinations for Australian travellers in 2024.⁴

Hotel investment activity in Fiji further supports an increase in travellers to Fiji. There is demand for 5000 additional hotel rooms in Fiji, with 4500 in the investment pipeline due for completion in the next 3-5 years.⁵ Assuming those projects come to fruition, and based on a conservative occupancy rate of 70%⁶ and a travelling party of two people, over the next 5 years there will be an additional 2.3 million visitors to Fiji from around the world. This means that every year for the next 5 years, there is an expected additional 465,000 people from around the world wanting to travel to Fiji. Of this, at least 40% are expected to come from Australia⁷ – a total of 186,000 Australians. Conservatively, ATIA believes capacity on the ground will be able to accept, and Australians will be able to fill, at least an additional 186,000 seats each year at a minimum. This forecast is based on long-term averages and does not take into account the recent rapid increase in demand for travel to Fiji by Australians.

As a specific example of hotel investment activity, IHG is currently one of the largest operators in Fiji with 4 hotels (546 rooms), and around 65% of their Fiji business is from Australia. IHG has plans to add a fifth hotel in the coming months, including a 600 seat convention center. IHG currently employs around 700 people in Fiji, increasing to 850-900 when the fifth hotel opens, supporting employment in Fiji. They have a strong ambition to grow further in Fiji and expect to sign more hotels in the next year.

On this basis, ATIA submits that Australia would benefit from additional aviation capacity to and from Fiji, and that this should be an additional 186,000 seats per year at a minimum to ensure Australia and Fiji remain competitive as a destination.

Malaysia

Data submitted in *Growth Potential for Foreign Airlines by the then Department of Infrastructure and Regional Development* to the 2015 Productivity Commission *Research paper on Australia's international tourism*, shows that at the time, Malaysia was one of 4 of Australia's top 15 markets which were at capacity, with zero growth capacity at Australia's major gateway airports (Australian majors). This was alongside Hong Kong, China and Qatar.

A similar document for the Northern Winter 2017-18 and 2019-20 seasons shows additional increase in seat capacity to/from Malaysia to Australian majors to retain reasonable growth potential (>20%).

The most recent document from the Department of Infrastructure, Transport, Regional Development, Communication, and the Arts for the Northern Winter 2023 season shows that Malaysia has underutilised capacity of only 2%.

Demand for travel to Malaysia by Australians has decreased 17% comparing year end September 2023 to 2019.⁸ However, based on flight data it has been predicted that the Asia-Pacific will be a major tourist destination for Australian travellers for 2024.

In addition, to improve connectivity for travellers transiting to Europe and other destinations, it is essential to increase the bilateral opportunities outside of the major hubs of Singapore and the United Arab Emirates to create the opportunity of growth in supply. Malaysia represents a key opportunity, noting that additional carriers are also considering transit routes through Malaysia for future inbound and outbound travel.

⁴ Jemima Skelley, These are Australians' top international travel destinations for 2024, based on flight data, nine.com.au, accessed 20 November 2023 <[The most popular overseas destinations for Aussies in 2024 revealed by flight data \(nine.com.au\)](#)>.

⁵ See [Praneeta Prakash, Tourism reaches peak, needs more investment: Economist](#), 8 November 2023.

⁶ See Tourism Fiji, [Fiji Tourism Investment Prospectus 2023](#), p 8.

⁷ <https://corporate.fiji.travel/statistics-and-insights/visitors-arrival>

⁸ See ABS Overseas Arrivals and Departures, September 2023.

Support for expanded flights to key South-East Asian markets such as Malaysia is contained in *Invested: Australia's Southeast Asia Economic Strategy to 2040*, launched by the Federal Government in September. It stated:⁹

Given the reliance of travellers between Australia and Southeast Asia on air travel, ensuring airlines are well positioned to cater for future demand will be crucial. The Australian Government should seek to enhance capacity opportunities available to airlines under air service agreements so that they remain ahead of demand, enabling future growth and competition to support increases in travel and freight.

With unrestricted, 'open skies' air services agreements with only nine other markets, Australia is well off the pace of leading aviation markets. This compares to the 100 open-skies agreements negotiated by the US,¹⁰ Singapore with more than 60¹¹ and Canada with 23.¹² Given the importance of the region, a key consideration is whether an open skies agreement with Malaysia would represent an opportunity to place lower prices on airfares and achieve the economic flow-on benefits across the economy.

ATIA submits that increasing capacity to and from Malaysia would therefore be beneficial, including a consideration of an open skies agreement.

Indonesia

Australian airlines only have 91 surplus seats under the existing bilateral agreement, while Indonesian and foreign carriers could still add another 12,285 seats.¹³

In terms of demand, in 2022, Indonesia was the second most visited country by Australian tourists. Bali was the standout in terms of demand on the leisure travel front.¹⁴ Data suggests the Asia-Pacific will be a major tourist destination for Australian travellers in 2024, and that in particular Bali will be a popular destination for Australian travellers.¹⁵

In addition, Indonesia is recognised as being of significant geopolitical importance to Australia, with shared goals of an open, stable and prosperous Indo-Pacific region, and a commitment to enhancing cooperation in trade.¹⁶

We also note Indonesia has shifted its focus towards five super priority destinations (Labuan Bajo, Lake Toba, Yogyakarta, Mandalika, and Likupang). We understand major hotel groups are supporting this focus and are expanding their presence across key markets including Jakarta and Bali as well as secondary and tertiary markets across the country. As an example, IHG has 24 hotels (5,369 rooms) today, plus pipeline 16 hotels (2,733 rooms) in the next couple of years. It is clear that hotel investments support an increase of visitors to Indonesia. Increased air capacity is needed before the additional demand created by increased hotel capacity takes place.

It is evident that the trade between Indonesia and Australia in terms of passenger movements is very one sided. Given this discrepancy, as well as the geopolitical importance of Indonesia, it may also be worth

⁹ DFAT, *Invested: Australia's Southeast Asia Economic Strategy to 2040*, A report for the Australian Government by Nicholas Moore AO, 1 September 2023.

¹⁰ Department of Infrastructure, Transport, Regional Development, Communication, and the Arts, *Growth Potential for Foreign Airlines*, 26 April 2023.

¹¹ US Department of State, Bureau of Economic and Business Affairs, *Open Skies Partners*, 14 November 2016, accessed 17 September 2023, available at <https://2009-2017.state.gov/e/eb/rls/othr/ata/114805.htm>.

¹² Civil Aviation Authority of Singapore, *Adopting A Progressive Approach*, accessed 17 September 2023, available at <https://www.caas.gov.sg/who-we-are/areas-of-responsibility/growing-singapore-as-a-global-air-hub/air-services-policy>.

¹³ AFR, *Sydney Airport warns Qantas could jack up fares to Bali*, 6 December 2023, see also Sydney Airport's submission to the International Air Services Commission in relation to Qantas' [application](#) for capacity.

¹⁴ Nielsen, Nielsen data reveals Australia's changing travel trends and the brands spending big to attract Aussie tourists, accessed 17 November 2023, citing ABS Overseas Arrivals and Departures.

¹⁵ Jemima Skelley, These are Australians' top international travel destinations for 2024, based on flight data, nine.com.au, accessed 20 November 2023 <[The most popular overseas destinations for Aussies in 2024 revealed by flight data \(nine.com.au\)](#)>.

¹⁶ See, for example, [Joint Statement on the Eighth Australia-Indonesia Foreign and Defence Ministers' 2+2 Meeting](#), 10 February 2023.

considering an open skies agreement with Indonesia. Additional capacity is crucial to ensure capacity remains ahead of demand, and to ensure competition on routes from Australia to Indonesia and a level playing field for all Australian carriers to expand their remits.

Thank you for considering the views of the travel industry. Please do not hesitate to contact Ingrid Fraser, Director of Public Policy and Advocacy at Ingrid.fraser@atia.travel if you would like to discuss further.

Yours sincerely

Dean Long
Chief Executive Officer