



5 August 2009

Mr Michael Dean
PACER Plus FTA Section (PPFTA)
Pacific Regional and New Zealand Branch
Pacific Division
Department of Foreign Affairs and Trade
R G Casey Building
John McEwen Crescent
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Dear Mr Dean

Pacific Agreement on Closer Economic Relations (PACER) Plus

I refer to the Department's call for public submissions on the Pacific Agreement on Closer Economic Relations (PACER) Plus, the prospective trade and economic agreement between Australia, New Zealand and Forum Island countries.

As the Qantas Group does not operate its own aircraft to Forum Island countries, there is little to be gained for us commercially from PACER Plus in a direct sense. However, the region's aviation industry could benefit from the enhanced trade links and economic activity that will undoubtedly flow from PACER Plus, leading to increased tourism and business travel.

Qantas supports the negotiation of PACER Plus as there are clear benefits for Forum Island countries, for certain sectors of the Australian economy, as well as indirectly for the aviation industry. It is likely that PACER Plus will deliver these gains faster than could be reached through separate bilateral negotiations. Qantas' support is qualified, however, by an expectation that the liberalisation of aviation market access will continue to be addressed under the bilateral air services arrangements that are already in place.

Qantas' Operations in Forum Island countries

Although this region is a small market segment for Qantas, it is a strategically important one. Qantas has well-established commercial relationships with a number of local carriers, and has an operational history in the region dating back to 1945. Qantas currently offers services to Fiji, Vanuatu and Papua New Guinea, which are operated by our code share partners - Air Pacific, Air Vanuatu and Air Niugini.

Qantas also recognises the Australian Government's long-standing interest in the region, and the strategic importance of the Pacific Island countries to Australia.

The market for air services in the Forum Island countries is quite diverse in terms of the origin or destination of the traffic, and the reasons for travel. There is a large volume of business traffic to countries such as Papua New Guinea and Fiji, a large volume of

leisure traffic ex-Australia to countries throughout the region, and a large volume of visiting friends and relatives (VFR) traffic between Australia and Fiji. There is also potential for significant growth in the region as it is viewed as a desirable destination by tourists from the US, Europe and Asia.

Opportunities for PACER Plus

It is likely that PACER Plus will deliver benefits of broad national significance to Australia, such as increased investment and exports, which will assist in expanding the commercial ties between the participating countries, and create growth opportunities for Australian businesses.

Although Qantas does not face many major impediments to conducting its business in Forum Island countries that, in our view, might be addressed in the context of PACER Plus, we outline some views on opportunities that may exist below.

Doing Business Issues

Labour mobility is an issue that we believe should be addressed by PACER Plus to achieve greater scope for the movement of people between participating countries.

Measures that ease the movement of money and capital between Australia and Forum Island countries, such as removing unnecessary restrictions instituted by central banks, may encourage more investment and ease the process of investing in the region.

The Aviation Industry

The provision of regular, reliable and competitive transport services is crucial for the economic survival of Forum Island countries. The small populations, wide geographical separation and marginal economies of the region mean that local carriers operate on long routes with small numbers of passengers, making their commercial viability challenging.

These carriers, being largely government-owned and subsidised, also suffer from insufficient capital funding, inefficient equipment, a lack of airline management skills, reliance on expatriate staff in certain positions, and poor infrastructure. In turn, the region as a whole suffers from infrequent, expensive and unreliable air transport.

Qantas believes that some of these practical issues could be overcome with Australia's assistance, and supports advances that would lead to the viability and sustainability of the aviation industry in the region. This would clearly also have flow-on effects on the tourism industry, and at the same time help us forge closer relations with Forum Island countries. The provision of aid and technical resources, as well as Australia's help in facilitating global banking bodies to provide funding for infrastructure projects in the region could all play a part in this.

As the aviation industry in the region suffers from a lack of infrastructure, we would suggest that some funding be channelled into aviation-specific infrastructure projects.

Australia's support of education and training programs, such as the Australia-Pacific Technical College (APTC), and programs operated through AusAID, are useful to the aviation industry, and these would each benefit from additional funding. The provision of technical training, through scholarships, for local aircraft engineers and pilots would

assist in preparing local people for future employment in areas currently taken up by expatriate workers.

Regional workshops and seminars in aviation, such as disaster management, security, safety, and harmonisation of technical and safety regulations, would assist the region's carriers in becoming more self-sufficient.

Coordinated approaches to safety and security between countries could benefit the region and could be established and administered with Australia's aid, leading to more efficient regulatory systems that protect public safety.

Australia could also assist by helping to find regional solutions to the fragmented aviation market in Forum Island countries through consolidation and/or alliances.

Liberalisation of Air services

Australia currently has bilateral Air Services Agreements (ASAs) with many Forum Island countries (Cook Islands, Fiji, Nauru, Niue, Palau, Papua New Guinea, Samoa, the Solomon Islands, Tonga and Vanuatu), which largely cover the needs of the individual markets and serve the broader national interests of the countries effectively.

Australia may also have the opportunity to develop further bilateral air services arrangements in the future with the remaining Forum Island countries - the Federated States of Micronesia, Kiribati, the Republic of the Marshall Islands and Tuvalu.

Qantas believes the current bilateral approach to air services negotiations offers the best prospects for the growth of air links, and for the continued liberalisation of air services between Australia and Forum Island countries.

Alongside these bilateral ASAs sits the Pacific Islands Air Services Agreement (PIASA), which is a multilateral agreement between Australia, New Zealand and a number of Pacific Island countries, which is intended to provide a staged process for air services liberalisation throughout the Pacific.

While Qantas is aware that Australia's preference is for Free Trade Agreements (FTAs) to be comprehensive in scope and cover a substantial proportion of trade between the parties involved, our support for Australia's involvement in PACER Plus is qualified by an expectation that the bilateral aviation framework should continue to be developed separately. This is consistent with the approach taken with the other FTAs that Australia has negotiated.

Please do not hesitate to contact me if you would like to discuss any of the foregoing further.

Yours sincerely



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