

Parliament of Australia Joint Standing Committee on Foreign Affairs, Defence, and Trade
Trade Sub-Committee

Enquiry into Australia's Trade and Investment Relationship with the United Kingdom.

INTRODUCTION

IAG is pleased to respond to the Trade Sub-Committee's request for a contribution to its inquiry into Australia-UK trade and investment. IAG is the parent company of Aer Lingus, British Airways (BA), Iberia and Vueling and as such is one of the world's largest airline groups: IAG carried over 100 million passengers in more than 500 aircraft to 274 destinations across the world in 2016.

Through BA in particular the group has a long-standing and deep relationship with Australian consumers and businesses. BA currently operates a daily flight to Sydney and considers Australia as a whole to be an important market.

UK-AUSTRALIA AVIATION MARKET

Sydney is the fifth largest market between London and Australasia and the third after Hong Kong and Singapore for "premium" traffic, that is passengers travelling in all but our World Traveller (economy) cabin. The strength reflects the nature of the market and the importance of connections between the UK and Australia for business travel.

However, the UK-Australia market is also one of the most competitive in the world. The distance means that non-stop flights have not generally been possible so there are a myriad of routes and competitor airlines available to consumers. A traveller searching for flights on the internet today will quickly find more than 20 viable options for connecting flights to Australia from the UK with a choice of stops in the Middle-East, Asia, and in North America.

CONTRIBUTION OF AVIATION TO TRADE AND ECONOMIC GROWTH

The Committee's introduction to its Terms of reference identifies the value of the trade relationship between the UK and Australia "with two-way trade in goods and services worth more than \$23 billion". It also notes the importance of tourism "with nearly 700,000 British visitors coming to Australia last year, who collectively spent almost \$4 billion in Australia."

IAG recognises the vital importance of such trade and tourism and encourages the Committee to consider the role that air transport plays in contributing to economic development and the need for continued liberal arrangements between the UK and Australia for international air services.

Airlines provide a contribution to the economies at both "ends of the route" through direct employment in airlines and their supporting industries (including airports).

The tourism industry also continues to be a major driver of economic activity, for which aviation is vital, and tourism is forecast to have an increased impact. We note that Tourism Research Australia's *State of the Industry Report* shows that spending on tourism by visitors from the UK increased 13% from 2013-14. Analysts predict continued air travel growth even in mature markets with the overall number of trips by Australian residents to all markets expected to grow by 23% between 2012 and 2020 and those by UK residents to increase by 27%¹.

¹PWC, *Propensity to fly in emerging economies: Implications for infrastructure investment*

In addition, air transport supports cultural links, provides opportunities for the arts and educational exchange and for sporting links and – particularly important in this case given the distance and the historic ties between nations – provides societal benefits by allowing by friends and relatives to visit each other. But it is air transport’s role as a facilitator of trade and industry that makes the greatest contribution to economic growth.

Air connectivity has a unique impact by facilitating face-to-face contact between businesses and people across different countries and so allowing trade and investment links between businesses. Therefore, air connectivity is crucial for facilitating Australian businesses and exporters’ access to the UK and the trade and investment opportunities available there. Greater openness of the economy as a result of increased trade and investment leads to productivity growth: economic growth creates demand for connectivity and in turn connectivity enables growth – it is a cyclical relationship.

The relationship between air connectivity and GDP growth is also a long term one through the impact that connectivity has on productivity. But open economies with higher proportions of trade and foreign direct investment tend to achieve greater productivity growth as illustrated in the figure below.



How air connectivity facilitates economic growth²

IMPORTANCE OF LIBERAL AIR SERVICES

The key issue in this context is to ensure liberal bilateral or multilateral air services agreements allow a competitive airline market that can deliver the economic benefits in the UK and in Australia. Although air transport is outside World Trade Organisation arrangements, and therefore separate from free trade agreement negotiations, the parallel requirement for liberal air transport should be recognised in the consideration of UK-Australia trade when the UK leaves the EU.

The EU and the UK’s government and its airlines have led the way in Europe in liberalising access to aviation markets and Australia has had liberal agreements with the UK and was also one of the first to sign a “horizontal agreement” with the EU, recognising carriers from all Member States collectively. These attitudes and the common rules adopted for the EU market have enabled a thriving and competitive market in Europe that has provided significant benefits to consumers by allowing more choice and lower prices.

² Frontier Economics, *The Impact of “Brexit” on the Aviation Sector; a report for easyJet, IAG & Ryanair, December 2016*

Between the liberalisation of the EU market in 1993 to 2015, European travellers benefited from a four-fold increase in domestic routes with more than one carrier. But the biggest competitive change has been in the number of intra-EU routes with more than two carriers increased by 1059 per cent. In 2013, the UK Department for Transport stated that: *“The opening up of air services to genuine competition has driven down the cost of air transport and greatly improved the range and quality of services.”*³

These principles apply on short haul and long haul routes equally and we expect the UK government and EU to negotiate an agreement for UK-EU air travel that allows the same freedom to operate that currently exists. The UK will also look to sign separate agreements with other non-EU countries to ensure competitive air services and we would hope that Australia would be a willing partner in the vanguard of this work.

RECOMMENDATION

We encourage the Committee to consider the benefits that a liberal approach to air services brings to businesses and consumers and how that can contribute to a mutually beneficial and vibrant trade agreement. In trade terms the more opportunities for travel there are, the more opportunities for growth.

IAG hopes that alongside its work on specific trade arrangements, the Committee will make representations to the Government of Australia to encourage early agreement of a comprehensive, open air service agreement between Australia and the UK to the mutual benefit of both nations.

³ Department for Transport, 2013, *Aviation Policy Framework*; and analysis of ICAO and OAG data by Frontier Economics