Down with the empty-seat syndrome

A simple means of increasing airline competition has been overlooked, write **Nicholas Gruen** and **Lynne Gallagher**.

The collapse of the Tesna bid for Ansett underlines a failure to make the kind of commonsense reform that was completed long ago in most other markets.

Whether you are a fan or critic of Allan Fels, head of the Australian Competition and Consumer Commission, as things stand only he can protect us from Qantas exploiting its dominance.

While the ACCC looks at ways to strengthen competition laws to deal with the situation, we continue to forgo the best possible antidote to Qantas's near monopoly of the Australian domestic market – competition from other airlines that face near zero marginal costs.

Every week, literally thousands of seats are available on routes between Australian cities serviced by international flights. On a Melbourne-Sydney-Los Angeles flight, chances are the plane will be half-full on the Melbourne-Sydney leg.

Actually, that's not quite right. If it's a Qantas plane, any shortfall can be filled with either domestic passengers or international passengers who stop over in Australia. But no other airline can avail itself of this ready commonsense.

The carrying of air traffic that begins and terminates within the boundaries of a country, by a carrier from another country, is known as "cabotage". If other airlines were given better access to cabotage, a new, independent and cheap source of domestic competition with Qantas could be established.

The gains would not be only on the busiest routes between major Australian capital cities. Regional Australia would be the biggest winner.

Northern and West Australian regional cities would like to develop their strategic strengths as destinations that are closer to the rest of the world's population than Sydney and Melbourne. Darwin, Broome, Townsville and Cairns (and to a lesser extent Perth) are regional centres that are both desirable tourist destinations in their own right and plausible stop-overs on air routes to countries to our north and north-west.

A relaxation of cabotage restrictions would generate substantial benefits for those regions, capture some international tourism for Australia that would otherwise go elsewhere, and generally assist in disciplining Qantas.

This relic from another time survives only because policy is similarly antiquated. It survives because of the protection Qantas receives. It discriminates against northern Australians and cripples the capacity of our northern cities to establish themselves as tourism and aviation gateways to Asia and beyond.

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Other economic effects of the current restrictions include idle domestic airline capacity, higher air fares and less choice for passengers. Freight capacity is also compromised, hitting high value-added activities throughout Australia.

If nothing changes, prospects are bleak. The most aggressive low-cost fares have gone already and fares will inevitably rise. While Virgin remains focused on its customer strategy fares and lower fares, its market share is small and its position always subject to the risk of the incumbent's "capacity dumping".

At the height of the drama about the collapse of Ansett and the impact of September 11, the Government saw fit to ease cabotage restrictions temporarily for the last three months of 2001. Until the final collapse of the Tesna bid, it may not have thought through the long-term issues for competition in Australian aviation, but it is imperative it does so now.

While the cabotage rules remain, pity Professor Fels battling with an important arm of policy, actively and needlessly – indeed, astonishingly – acting to hold competition back.

Meanwhile, as we wait for more thorough reform of cabotage, Qantas should not only be prevented from predatory behaviour towards competitors and possible competitors. It should be prevailed upon to act as a true national carrier across all Australia's air routes and end the policy of common fare pricing.

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