

**NATIONAL AVIATION POLICY GREEN PAPER:
FLIGHT PATH TO THE FUTURE**



**QANTAS GROUP SUBMISSION
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OVERVIEW

The Qantas Group welcomes the Australian Government's comprehensive review of aviation policy and the draft policy settings detailed in its *Flight Path to the Future* Green Paper released in December 2008.

The proposed initiatives are broad ranging and forward-looking, and will play an important role in providing a coordinated framework for the Australian aviation industry over the longer term.

The Government acknowledges that the aviation industry is facing unprecedented challenges. The period since the release of the Green Paper has seen this intensify, with the deepening of the global financial crisis and volatility in fuel prices exacerbating underlying structural pressures. This has seen rationalisation of airline capacity, fleets and labour, further consolidation activity and additional airline bankruptcies. Australia's aviation industry has not been immune.

Against this background, it is critical that Australia's aviation policy settings are robust and flexible enough to underpin the sustainability of an efficient, nimble, safe and secure industry as it continues to undergo massive change. Qantas believes that the proposed initiatives provide a sound basis for the necessary certainty for industry to invest and plan towards achieving this objective.

We welcome the Government's recognition that perhaps more than any other country, Australia's economic prosperity is closely tied to the viability and competitiveness of its aviation sector. This highlights the importance of an integrated approach across environmental, infrastructure, regional development, taxation and industry policies.

The pursuit of greater international market access to improve commercial opportunities for Australia's airlines foreshadowed in the Green Paper will be fundamental in supporting the future growth and competitiveness of Qantas, Jetstar and our freight business, and that of Australian based industries more broadly.

We are pleased to see that the proposed policy settings recognise the structural advantages enjoyed by many of our major competitors and the need to take these into account when determining a balanced approach to market liberalisation. While these factors are an ongoing source of competitive benefit to these carriers, their value is magnified in weak global economic conditions.

The Qantas Group looks forward to continued engagement in the consultations being undertaken in relation to individual aspects of the Green Paper, and in working towards the finalisation of the National Aviation Policy Statement.

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CHAPTER 1: AVIATION SAFETY

It is significant and reassuring that the Government has restated its commitment to safety as the number one priority for aviation. Qantas agrees that safety must underpin all aviation activities and be maintained in the face of cost and other industry pressures.

1.1 Aviation regulation and investigation

1.1.1 Australia's approach to enhancing aviation safety

Safety agency governance: a Board for CASA

The effectiveness of safety agencies is paramount, with proper governance arrangements to ensure strong strategic planning and oversight. Qantas supports the re-establishment of a Board for the Civil Aviation Safety Authority (CASA), with key skills for Board members to include experience in aviation and transport safety.

Safety agency governance: independence for the ATSB

The enhancement of the independence of the Australian Transport Safety Bureau (ATSB) as a safety investigation body by establishing it as an independent statutory agency is endorsed by Qantas. It is important that the ATSB is resourced at a level which will ensure that it is able to effectively carry out its functions while continuing to attract and retain safety professionals of the highest calibre.

Enhancing safety regulatory powers

The CASA regulatory oversight program must support the internationally recognised principle of 'just culture'. A robust reporting culture, with a strong focus on promoting a culture of self-reporting by operators, should underpin this principle and be promoted by CASA. Qantas supports the statement by the CASA Chief Executive Officer, in the foreword to its Enforcement Manual, that "a person who reports making an honest mistake generally should not be prosecuted or fined, nor should they have their license, certificate authority suspended or cancelled".

The Green Paper outlines a proposal to "examine the operation of the demerit points system to ensure its balanced application" (p25). As such, a comprehensive review of compliance and enforcement measures should be undertaken to ensure changes to the demerit point system do not detract from the promotion of a self-reporting culture. This review should also clarify the focus of the demerit point scheme, as the existing scheme does not differentiate individuals from large scale, mature and/or complex organisations.

Recent proposed amendments to the demerit point scheme in the Civil Aviation Amendment Bill 2009 should remain in harmony with these principles and the direction taken by safety regulators around the world. In particular, the proposed amendment in the Bill relating to CASA retaining a discretion to take action even though an incident was voluntarily reported is potentially inconsistent with the regime recommended by the International Civil Aviation Organization (ICAO) pursuant to the Chicago Convention.

In order to improve aviation safety, ICAO has taken into account the importance of systematic accident or incident data collection and analysis. Annex 13 to the Chicago Convention has been amended to provide for reporting of safety related incidents. To ensure the uninhibited flow of information, Annex 13 also now prevents the use of safety reports for criminal prosecution or other forms of punishment unless there was an intentional or reckless breach of the law. Similarly, the European Union (EU) has issued a directive that adopts this concept. It is important therefore, that while CASA continues to refine its enforcement program, it does not diminish or limit its capacity to promote a self-reporting culture within the industry.

Equally, the current demerit point scheme, by allowing only 12 points for all parties, does not substantially differentiate individual pilots from corporate holders of certificates. Given that it is the owner of the organisation who will incur the demerit points, further regulatory development needs to distinguish that the demerit point scheme is aimed at smaller operators and individual permit holders and that there are a range of other enforcement measures within CASA's framework for managing larger operators. Consequently, Qantas supports the proposal in the Green Paper in relation to an examination of the demerit point system to ensure its balanced application, but seeks to ensure that clarifying the focus of the demerit point scheme is a key consideration as part of the review.

A certificate management approach to regulatory oversight activities is also supported by Qantas, as it will ensure appropriate outcomes are achieved compatible with the nature and complexity of a particular certificate holder.

Qantas supports CASA's commitment to continuing with the regulatory reform programme (RRP) which has an outcomes-based focus, with a commitment to completion by the end of 2010. The development and mandating of the Safety Management Systems approach noted in the Green Paper is supported and should continue.

Qantas believes that CASA must ensure that future processes for enhancements to its regulatory framework are capable of also supporting a technologically dependent industry. It is also imperative that, once the RRP is complete, sufficient funds are allocated to maintain the regulatory regime to a level that facilitates the uptake of new technologies to further enhance the level of safety.

Improving CASA's interactions with industry

Qantas wishes to reinforce the need for the development of a National Aviation Policy Statement to serve as a powerful platform for greater consultation and communication with industry and the community on how CASA should approach its ongoing safety regulatory role. We regard this as critical to achieving an informed and engaged aviation community which actively addresses safety issues.

An area where this relationship would be enhanced for operators is where employers are able to access information relating to any employees holding CASA approved licences, eg pilots, licensed aircraft maintenance engineers, so that safety-related qualifications (as stated and provided by employee licence holders) can be verified. While recognising the challenges of obtaining seamless access to CASA systems, Qantas believes that in the interests of continuing to improve both the interaction between government and industry, and strengthening the overall safety outcome, this is an essential enhancement to the aviation safety landscape of the future.

Stronger ties with the Australian Defence Forces to enable greater industry scope and efficiency for the maintenance, repair, training and design activity of civilian type certificated aircraft on the military register, eg B737 business jets, should also be investigated.

CASA's internal reforms

Qantas welcomes the proposed strengthening of CASA's capabilities in technical standards development, and trusts that CASA will exploit the considerable expertise resident in the broader industry in working towards achieving this.

International safety cooperation

Qantas would support the Government increasing its support of safety administration and air traffic management activities in neighbouring countries, particularly in Indonesia, Papua New Guinea and the South Pacific.

1.2 Air traffic management

1.2.1 Air traffic governance – roles and responsibilities

Airservices Australia – the provider of air traffic services

Qantas fully supports Airservices Australia's role as the principal, Government-owned, statutory air traffic management (ATM) authority. In Qantas' view, user charges should be based on the 'cost recovery' principle prescribed in the Chicago Convention, and as such, the dividend paid to Government as a return on capital should be based on current commercial interest rates.

Qantas also believes that the current governance structure of Airservices Australia with its established Board reporting to the Minister is appropriate. However, we consider that the Board would be enhanced by the inclusion of some members with strong air traffic management credentials and an appreciation of future ATM systems and airspace architecture.

Investment in technology and innovation

Qantas supports the effective use of new technology including the implementation of GPS as the sole source of en-route navigation. We are concerned that legacy radar and navigation aids are to be renewed, rather than making Automatic Dependent Surveillance-Broadcast (ADS-B) the prime means of surveillance in the short to medium term and GPS and RNAV the basis of en-route navigation. This will see the unnecessary duplication of systems with a lengthy transition to the new technology that will impose a significant cost penalty on airlines – and therefore passengers – as well as pushing back substantial potential safety and operational benefits to industry.

APG/AIG

Qantas endorses the proposed formal recognition of the strategic air traffic management plan and the role of the Australian Strategic Air Traffic Management Group (ASTRA). We remain concerned, however, that the Aviation Policy Group (APG) which will oversee ASTRA has no industry representation. Further, clarification of the roles of the APG and the Aviation Implementation Group (AIG) would be useful given that they will be responsible for ASTRA, yet (it has been argued) they are not decision-making bodies. It is not clear to Qantas which body would determine the implementation of ASTRA recommendations, or if they are indeed empowered so to do.

Greater civil/military cooperation and integration

Qantas is concerned that the use of airspace as a national resource (flexible use airspace) is not progressing, despite the establishment of the APG. In our view, if the APG is to remain a non decision-making body, this issue needs to be elevated to Ministerial level given its potential to deliver significant industry operational efficiencies and environmental benefits.

CHAPTER 2: AVIATION SECURITY

Qantas welcomes the Government's acknowledgment of the many challenges facing the aviation environment and the need to treat a wider range of threats than was previously appreciated or envisaged. The Green Paper also recognises the need to streamline security regulatory processes.

In Qantas' view, there are several areas that would benefit from further refinement and a reinforcement of key concepts and principles, with a greater emphasis on developing an aviation system that more effectively balances security, facilitation and affordability outcomes.

As the aviation operating environment becomes increasingly complex it is imperative that an agile regulatory framework is in place. This framework should enable industry and government to better engage with both potential and realised threats, and consider the protection of people and aircraft in the air and on the ground as part of a holistic and integrated strategy.

2.1.1 Aviation threat and security risk context

Current security environment

Qantas welcomes the Government's recognition that aviation security extends to the protection of the travelling public from acts of unlawful interference, including anti-social behaviour, hoaxes and acts that endanger passengers or aircraft. To mitigate such threats, there is a need for a broader approach to aviation security and the development of strategies that are risk based and pre-emptive, rather than reactive and based on only worst case considerations.

Known events and previous experiences

Qantas supports the view that the threat to aviation is increasingly dynamic and complex. While examples of unlawful interference of an aircraft are cited in the Green Paper, recent successful and disrupted attacks such as the 2006 Madrid Airport bombing, the 2006 mid-Atlantic airliner plot, the 2007 Glasgow Airport attack; and the 2007 John F Kennedy Airport fuel farm attack further demonstrate this threat.

While mass casualty attacks are an enduring feature of the terrorist threat to aviation, the emergence of economic attack against mass transit systems reflects a broader threat context to aviation. An economic attack may not necessarily seek a mass casualty outcome, but rather the intent to disrupt or degrade the aviation system by targeting the operational effectiveness of an airport or the multi-modal urban transport links. It is vital that that this threat context is incorporated into an integrated aviation security strategy.

Last ports of call

Qantas welcomes the Government's proposed actions to enhance cooperation with last ports of call countries (LPOC) to improve aviation security standards. The proposed foreign airports visits program has merit in fostering bilateral relationships in the aviation security environment, however, it is unclear to Qantas which aspects of the program represent enhancements, as it is our understanding that the key features of the program outlined in the Green Paper are in place.

The Green Paper does not identify the mechanisms in the proposed program that will ensure the achievement of the desired outcome of improved international security standards. From Qantas' perspective, a significant enhancement would be intervention by the Australian Government – rather than the airline operator – with an uncooperative LPOC in the first instance. This is appropriate in light of the bilateral agreements covering aviation security that exist between Australia and several of these countries.

Similarly, while Qantas supports the Government's commitment to working with foreign governments and other international aviation bodies to improve aviation security standards, we believe it must also engage its foreign counterparts to pursue opportunities for the global harmonisation and mutual recognition of aviation security standards and procedures. It is noted that this issue was not identified in the Green Paper, despite being a key focus and growing area of concern for industry participants within the international and regional aviation environment.

2.1.2 Key challenges

Qantas notes the Government's recognition of the financial challenges imposed on airlines and airports as a result of Government-mandated security policies, particularly at emerging secondary or regional locations.

While Qantas welcomes the Government's commitment to addressing these challenges, the Green Paper does not provide a roadmap to do so. The Government should engage with industry to develop strategies that incorporate financial and facilitation considerations to meet current and future challenges for airports and airlines in these locations.

Affordable and sustainable aviation security solutions present a significant challenge to the aviation industry, particularly at regional airports to which security measures imposed at capital city airports are increasingly applied. This approach sees an inequitable burden of costs given the significantly lower passenger throughput at regional ports. For this reason, Qantas continues to advocate a network pricing model, which would see security costs apportioned across the industry as a fixed fee per passenger cost.

A centralised screening model, managed by a national screening agency with the ability to adopt a national approach to its workforce, would be a significant support and facilitator of the network pricing concept.

Qantas does not support the view that onboard security measures for private and commercially operated aircraft, and passenger and cargo aircraft should be identical. We are not aware of material changes in risk that would necessitate a change in policy on this issue and consider that, absent this, adoption of a 'one size fits all' approach would result in increased costs and inefficiencies without a practical improvement in security outcomes.

2.1.3 Protection of aviation infrastructure and aircraft

Current policy settings for aircraft requiring passenger screening

Qantas supports the Government's stated intention to develop a transparent policy for triggers that determine screening criteria. We would advocate the use of a risk-based approach to achieve this objective.

Qantas does not believe there is an unambiguous link between the threat environment and the triggering criteria noted in the Green Paper, such as aircraft weight, speed, fuel capacity, passenger numbers and kinetic energy. Similarly, the use of an aircraft's Maximum All Up Weight (MAUW) as the sole or primary criterion for determining if the aircraft should operate as a screened air service does not transparently acknowledge the risk drivers for making such a decision, nor address the impacts.

A more thorough risk assessment process would acknowledge other key factors for consideration. These factors should include airport location, the threat environment at that location, total annual airport passenger numbers and aircraft physical characteristics to mitigate in-flight threat, in particular 'hardened' flight deck doors. These factors can be weighted in terms of their contribution to overall aviation security defence-in-depth.

As the Green Paper highlights, such a decision should be made with the maximum amount of consideration and consultation given that the application of altered criteria would have a significant impact on infrastructure at regional airports and costs for operators.

The introduction of screening requirements for charter services based on aircraft type, rather than service type, is another area which, if not considered in a risk-based context, could produce significant detrimental outcomes for regional and remote communities with no enhancement of security outcomes. Currently, charter flights can operate as 'closed' and private or 'open' and public operations. In many cases charter services operate to regional and remote airports that have no or limited screening infrastructure. Requirements for screening would mean that these event-based or seasonal operations could not be supported. This has the potential to impact on employment in remote locations, for example within the mining industry, where many workers are employed on a 'fly-in fly-out' basis, and to a lesser extent, regional tourism.

Terminal security / front-of-house

Qantas endorses the four key themes put forward by the Government in its consideration of front-of-house strategies, and welcomes its call for input to inform future policy recommendations.

It is of vital importance that a broader more integrated, 'whole of precinct' approach be adopted to meet the aviation security challenges posed by the increasing interdependencies between airports and urban infrastructure, and which incorporates infrastructure development and planning. Qantas has previously recommended the development of an Integrated Aviation Security Strategy, which would be inclusive of front-of-house security mitigation strategies and incorporates a national plan for the development of transport infrastructure to respond to the passenger and structural capacity growth anticipated out to 2025. This would ensure the integration and harmonisation of front-of-house security measures with the multiple layers of preventative security that are enacted by a diverse range of stakeholders within the precinct.

The effectiveness of this strategy would also be dependent on an effective operational command, control and coordination mechanism across the precinct. The Green Paper highlights that a major mitigation factor in addressing front-of-house vulnerabilities will be enhanced operational activity involving law enforcement capabilities. Qantas supports this view, but believes that through the delivery of the Unified Policing Model there could be better utilisation of policing resources within the airport environment which could strengthen front-of-house security.

In particular, Qantas regards the presence of uniformed, armed law enforcement officers at the screening points of designated airports as essential in combating security risks and preventing criminal behaviour within the airport environment. A visible police presence at screening points would be a significant deterrent to those seeking to engage in criminal behaviour or other act with the potential to interfere with an aircraft or endanger the travelling public. This presence would provide rapid response if required, and further introduce the possibility for police to conduct targeted observation of high-risk passengers through the use of behaviour analysis techniques to detect suspicious persons and activity within the airport environment.

Identity and background checking

Qantas supports the Government's statement that the Aviation Security Identification Card (ASIC) background checking process can be improved.

As outlined in our response to the Issues Paper, Qantas' position is that the current review of the eligibility of an employee to hold an ASIC every two years, presents a risk that an employee may continue to hold an ASIC when they have in that period, become ineligible to do so. A solution that would avoid this vulnerability would be for ASIC holders to be subject to continual monitoring by AusCheck or their eligibility to hold an ASIC.

Qantas would support a method similar to the current practice within the United States, where a background check is a one-off event to determine an individual's eligibility to hold an airside access pass. Subsequent to the issuing of an airside access pass, law enforcement authorities advise the relevant bodies (in the Australian case this would be AusCheck and the issuing body) of any offence incurred by a current holder, which then automates a reassessment of the individual's eligibility to hold an airside access pass. This approach would provide the desired security outcome while removing duplication of administrative effort and reducing costs.

Technology

Qantas supports the Government's proposal to mandate security technology performance specifications and certification requirements. This will provide greater consistency in deployment and detection capability, with the flow-on effect of improving consistency for the passenger during the screening process.

However, given that security technology solutions impose significant costs on the aviation sector, considerations of affordability, practicality and passenger facilitation must be incorporated in the decision process.

There is also a risk that with continual advancements in technology, equipment purchased at significant capital investment will be superseded within a relatively short period. Against this background, if the Government elects not to move to a single screening authority, in Qantas' view it should provide taxation incentives for the purchase of security screening equipment or consider subsidising these costs.

While Qantas acknowledges that there are potential benefits in the application of biometric measures at critical access points to validate identity, the strength of biometric technology is dependent on the rigour employed when determining the applicant's true identity at the time of enrolment. This could be addressed through the application of a consistent and regulated standard implemented across entities charged with enrolling individuals to correctly validate and identify the person holding the credentials. Identity theft also presents a degree of risk that requires the provision of a robust applicant authentication regime, including a base level standard of supporting identification documentation.

Known traveller

The Green Paper notes that submissions have been received indicating support for a domestic 'Known Traveller' program. Based on the current security screening requirements and criteria, Qantas sees little value in such a program.

We are aware that similar programs operate within the international environment, which may seem attractive on the basis that program members

are able to avoid secondary screening processes, however, this is not immediately applicable to the Australian environment. In Qantas' view, initiatives such as more effective use of airport infrastructure, new technologies and regulatory reform, eg the removal of low risk items from the Prohibited Items list, will have a greater value to all passengers, in contrast to the potential adoption of lower standards for some passengers.

Prohibited Items

Qantas supports the Government's intention to implement a Prohibited Items list in line with ICAO and internationally agreed standards. We also welcome the approach which takes into consideration the specific threat environment to Australia. The Prohibited Items list should incorporate only items that could ultimately be used to destroy or take control of an aircraft in flight or cause mass casualties on the ground. This orientation will allow greater focus on the security outcome, while improving compliance rates, facilitation and the overall passenger experience.

Alternative service delivery models for passenger and baggage screening

Qantas supports the Government's review of alternative screening model options and believes this approach is essential to meet future aviation challenges and deliver improved and optimised security outcomes.

As highlighted above, Qantas believes the current disparate and fragmented delivery of screening services in Australia would be enhanced through the implementation of a single centralised model which is outsourced and managed in partnership by industry and government.

If the Government chooses not to adopt such a model, Qantas would propose a two-tiered alternative, which would see the number of screening authorities significantly reduced. A two-tiered system would continue to provide flexibility and economy of scale for primary airports, while centralising screening and implementing network pricing at regional locations.

The cost of passenger and baggage screening

The Green Paper recognises the substantial economies of scale between airports for the provision of screening services. Regional locations are particularly disadvantaged, with lower passenger throughput over which to apportion the cost burden of screening services. Compounding this, due to the remoteness of their locations, regional airports often face challenges in the areas of infrastructure, equipment maintenance and the recruitment and retention of suitably qualified aviation personnel. These challenges present a significant cost burden on airlines seeking to invest in the growth of regional international gateways and ultimately therefore, the dispersal to regional Australia of the economic benefits associated with international and domestic tourism.

Currently, mandated security infrastructure outcomes such as passenger screening and checked bag screening (CBS) are not implemented differentially based on individual airport risk assessment, but simply applied in equal measure irrespective of the location of the airport. Given the cost implications for regional ports, Qantas believes that to support the sustainability of operations and continued growth of air services to regional communities, the Government should further explore avenues to assist industry meet the expenditure required for mandated security measures.

Qantas supports the implementation of a different screening pricing structure and, as previously highlighted, advocates a network pricing model as the most equitable means of apportioning costs across industry. Adoption of such a model would need to be accompanied by a mechanism to ensure visibility and management of costs at individual ports.

Irrespective of the model adopted, the operational cost to industry should be commensurate at all locations, and take into consideration such features as throughputs for passengers, checked baggage and freight. Should the Government pursue a two-tiered screening system, this may require assistance via subsidies. Options could include infrastructure grants similar in nature to those recently offered as part of the CBS implementation at regional ports, or adjustments in the Passenger Movement Charge to offset long-term operating costs at remote disadvantaged locations.

2.1.4 Securing the supply chain

Qantas supports the need to strengthen and simplify the policies and processes governing air freight security. In principle, Qantas supports a freight security governance model that minimises security screening and the duplication of certification processes within the airport environment.

International issues

Qantas notes the intention of the US Transport Security Administration to mandate 100 percent cargo screening on regular public transport (RPT) services by 2010. We believe that the implementation of this requirement will present numerous challenges to industry, including significant financial costs and disruption through unsustainable congestion within the cargo terminal.

To alleviate these challenges, Qantas recommends that the Government consider authorising freight forwarders to screen freight at the commencement of the supply chain, thereby releasing manpower resources and the need for costly screening equipment within the airport environment. In our view, once an item of freight has been screened, continually protected from interference and has flown, there is no additional value gained in subjecting the item to additional screening prior to further uplift.

Supply chain technology

The Green Paper recognises the current inability to screen 100 percent of air cargo using Explosive Trace Detection (ETD) or X-ray equipment and the specialist processes and technologies that would be required to perform this function. Qantas fully supports the Government's proposed research and development of cargo screening technologies with international partners, and would welcome the opportunity to participate in working committees or trials to determine the most effective technology-based examination processes.

Businesses operating in the supply chain

Qantas welcomes the Government's support for exploration of issues in relation to businesses operating in the supply chain.

Qantas supports the involvement of accredited supply chain entities within transportation security and believes an integrated system will provide the desired security outcomes. In particular, we regard harmonisation of international freight security standards and acceptance of equivalent measures as a key priority for Government.

People working in the supply chain

Qantas is supportive of a 'systems' approach to air cargo security, which – together with people and processes – demands enhanced security awareness and measures beyond compliance with regulations. The integration of security, risk and compliance principles, and employee education on these issues, would improve the overall security outcome within the air cargo sector. As highlighted in our response to the Issues Paper, this approach is best delivered through the extension of a Security Management System.

Qantas supports the Government's proposal to extend the requirement for individual identity verification and background checks to persons working within the air cargo sector. We consider that employees within the sector who have access to cargo should be subject to the same level of security background checks as applicants applying for airside access. This becomes more important if the screening examination process is conducted earlier in the supply chain, as suggested above.

CHAPTER 3: INTERNATIONAL AVIATION

3.1.1 Australia's approach to liberalising access to international markets

Qantas supports the Government's proposal to take into account the extent to which international airlines are prepared to invest in Australia when assessing the national interest for bilateral negotiations. We believe this will facilitate a clearer and desirable distinction between those carriers with a genuine commitment to the market through investment in Australian jobs and tourism promotion, and those that simply exploit Australia's liberal aviation policy to feed their broader networks.

While having an interest in bringing traffic to Australia, foreign carriers are naturally predominantly interested in attracting outbound travellers destined for either their home country or points beyond, ie feeding traffic to and through their hubs. The level of investment spent on marketing Australia internationally versus promotions to attract outbound traffic will therefore need to be distinguished in applying this criterion.

It nonetheless remains important to recognise that carriers who are large and financially secure and/or operate in environments where aviation is at the forefront of a broader national agenda are far better placed to exercise their financial leverage for the purpose of being granted additional rights at air services negotiations. Against this background, the motivations of individual carriers and any structural advantages will need to be carefully weighed against the proposed criterion.

It is worth noting in this regard that Middle Eastern based carriers continue to expand their operations in the prevailing economic circumstances, in sharp contrast to the widespread network cuts and deferral of aircraft deliveries announced by the majority of the industry. For example, Emirates has indicated that it will expand its passenger seats capacity by 14 percent in 2009 through the addition of 18 widebody aircraft, while its cargo capacity will grow by 17 percent. Emirates expects to add seven A380s, 10 B777-300ERs, one B777-200LR and one B777F to its fleet next year to add new routes and consolidate others with additional frequencies.

3.1.2 Improving access to regional areas

Qantas notes that the Government does not believe that proposals to change the ownership requirements for Australian international airlines to enable majority foreign-owned domestic airlines, such as Tiger Airways, to operate international services from Australia would result in foreign airlines commencing services to regional airports.

Qantas agrees with this view. Australia has a number of low cost airline vehicles, for example, Jetstar and Pacific Blue, which are highly efficient by global standards. If international services from regional ports were commercially viable, it is almost certain that these carriers would be operating these routes.

As noted in the Green Paper, Australia already has one of the most liberal aviation regimes in the world, providing foreign airlines with significant opportunities to access the domestic market. These rights are available in only a few countries around the world. However, no country is yet to permit a foreign carrier to operate international services from its home base.

In relation to foreign ownership, the Green Paper has highlighted a possible move to a principal place of business criterion in the longer term, should international developments continue in that direction.

Until that time, Tiger is able to link Australia and other international markets through the use of fifth freedom rights available to it under Singapore's bilateral agreements, which includes access from any points in Australia to destinations in New Zealand. It also has the option of restructuring its operations to meet the foreign ownership requirements of the Air Navigation Act, in the manner undertaken by Ansett International and Virgin Blue in the Australian market, and by Jetstar Asia in the Singapore market.

3.1.3 Air cargo – continuing on the path to growth

Qantas supports the continuation of the 'open skies' policy for dedicated cargo services, with both open routes and capacity, and importantly, the ability to use wet-leased freighter aircraft.

Qantas supports the Green Paper's proposal that seventh freedom traffic rights should only be considered on a case-by-case basis for passenger services, but believes that for dedicated freighter operations seventh freedom rights should be sought wherever possible. The low outbound volume of freight from Australia presents a unique situation, and the ability to operate services without originating or terminating in Australia boosts the competitiveness of locally based carriers considerably.

3.1.4 Cabotage – are the restrictions necessary?

Qantas is pleased to note that the Government intends to maintain the existing consecutive cabotage policy position, recognising that – if permitted – foreign carriers would likely elect to operate the more lucrative domestic routes, which would have a detrimental impact on incumbent domestic carriers (who service a full network of domestic trunk and regional routes) and Australian jobs due to these carriers' ability to marginally price services.

The Green Paper flags that there may be a case for considering requests by foreign airlines to carry domestic passengers on routes which are not currently served by scheduled domestic airlines or which require a government subsidy, such as between Australia's external territories and the mainland. Qantas is comfortable with this approach, provided that the criteria are clearly defined, and the circumstances are found to be exceptional when these criteria are applied. We would also like to see Australian-based carriers routinely consulted on any such proposal involving domestic routes.

It is important to note in this context that Australia already has one of the most liberal domestic aviation policy settings in the world, permitting any foreign carrier to establish a domestic operation on an investment cabotage basis. This policy provides ample opportunities for carriers wishing to operate in the Australian domestic market on a more extensive basis.

3.1.5 Trading of “seventh freedom rights” – worth pursuing?

Qantas is comfortable with the Government’s recommendation to trade seventh freedom rights on a case-by-case basis, subject to a national interest test. We believe this approach will provide sufficient flexibility to ensure that the exchange of any such rights is of commercial value to Australian carriers.

As noted in the Green Paper, the trading of seventh freedom rights for cargo services is progressing more rapidly than for passenger services. This reflects the need to get goods to market and the more changeable nature of freight flows. At present, eight of Australia’s bilateral agreements have provisions for seventh freedom cargo rights and as noted above, Qantas would be keen to see the negotiation of these rights continued.

3.1.6 The regulatory framework for Australia’s international airlines

Foreign ownership rules – is there a need for change?

Qantas welcomes the Government’s proposed removal of the 25 percent and 35 percent limits on foreign ownership by a single foreign entity and by airlines in total respectively under the Qantas Sale Act. The removal of these restrictions would not only place Qantas in an equitable position with other Australian international carriers but, more importantly, would improve opportunities to participate in cross-border industry consolidation and strategic alliances.

We accept that the Government proposes to retain the basic 49 percent restriction on foreign investment in all Australian international airlines, but will continue to examine whether it is appropriate to retain this constraint over time. This is important to ensure that Australian carriers are not disadvantaged relative to the rest of the world in terms of their ability to source foreign capital and participate in consolidation if global developments see a trend towards the removal of foreign ownership limits.

As highlighted in Qantas’ previous submission, there are a number of safeguards which governments could put in place to ensure that Australian carriers remain ‘Australian’ in the absence of foreign ownership restrictions. For example, requirements similar to those under the Qantas Sale Act relating to key aspects of the business such as operational headquarters and proportion of locally based employees could be introduced.

The Government’s proposal to continue to pursue designation based on principal place of business in Australia’s bilateral agreements is supported by

Qantas. The shift to this criterion is an important foundation for the inevitable removal of nationality-based tests in the longer term.

The Green Paper notes that current ownership restrictions are in place to ensure compliance with designation criteria under bilateral agreements. We would anticipate that a shift in the designation regime towards more modern criteria would warrant further review of foreign ownership limits in the relevant legislation.

The Green Paper cites further opportunities abroad for Australian investors as one of the benefits for incorporating principal place of business criteria. While Qantas supports this, we would expect that Australia would encounter some reluctance from other countries to agree to such a criterion if, in practice, opportunities for investment in Australian carriers were limited by domestic legislation. In addition, it must be remembered that operations by an Australian-owned carrier designated under an air services agreement between two foreign countries would be subject to acceptance of the designation by the relevant receiving third country.

Taxation and related issues – industry calls for change

Qantas is pleased to see the taxation aspects raised in our submission on the Issues Paper noted in the Green Paper. The Group is continuing to press these issues, which have a significant impact on the competitiveness of the Australian aviation industry, in the context of the Government's review of Australia's taxation system and the development of policy frameworks such as the Carbon Pollution Reduction Scheme.

3.1.7 Passenger facilitation and border control – coping with growth

Key challenges

Qantas is pleased to note that the Green Paper states that the Government will ensure the existing cost recovery methods and funding models for the provision of border agency services are appropriate to meet continued growth and are transparent to industry (p114). We believe this should encompass an ongoing breakdown of how the revenue collected through the Passenger Movement Charge (PMC) is allocated.

When the PMC was introduced in 1995 its stated intent was to recover the costs of passenger processing and the issuing of short term visitor visas. While it has subsequently been determined that the PMC is a tax at law, it also maintains the characteristics of a user fee, as increases by successive governments have been justified as necessary to recover costs associated with passenger processing or security.

In Qantas' view, full details of costs recovered by the PMC should also be made publicly available. This issue has become even more acute following the release of the report of the Independent Review of Australia's Quarantine and Biosecurity in December 2008, which recommends that the biosecurity

system should be funded through user fees and an adjustment to the PMC. It is not clear whether the intention is to increase the PMC or to simply allocate a greater proportion of the PMC to the Australian Quarantine Inspection Service. If it is the former, Qantas would be concerned that this would contribute significantly towards a further increase in passenger travel costs.

A plan to meet growth at existing airports

Qantas welcomes the Government's decision to establish a joint government and industry national passenger facilitation committee, and was pleased to participate in the committee's first meeting in December 2008.

The Green Paper notes the activities of the Trans-Tasman Passenger Facilitation Working Group, in which the Qantas Group also participates and strongly supports. Given the similarities in culture and border requirements – notwithstanding some unique national biosecurity issues – significant opportunities appear to exist for Australia and New Zealand to streamline processes, avoid duplication, reduce costs and substantially enhance the passenger experience across the Tasman.

Qantas supports progress which in the near term would permit travellers to arrive as domestic passengers on scheduled trans-Tasman services. We recognise that some legislative, operational and commercial issues and challenges remain to be resolved by the various border control agencies, airports and airlines before a bilateral arrangement, under which the country of departure performs the primary clearance processes on behalf of country of arrival, can be agreed.

To be fully effective, the pre-cleared option should apply to all trans-Tasman passengers rather than just citizens of Australia and New Zealand. A solution that fell short of this would be of little benefit, as it would not be commercially viable to operate scheduled services carrying only Australians and/or New Zealanders, or for airports to build segregation infrastructure to keep different nationalities separated.

Qantas welcomes the commitment outlined in the joint statement on strengthened trans-Tasman cooperation by the Prime Ministers of Australia and New Zealand on 2 March 2009 to reducing the remaining barriers at the borders to ensure that people and goods can move more easily between the two countries, including through effective air links.

CHAPTER 4: DOMESTIC AND REGIONAL AVIATION

4.1 Regional services

4.1.1 The Australian Government's focus – services to remote Australia

The Green Paper identifies the need to explore further whether the regulation and financial assistance currently being provided to support unprofitable routes to rural and remote communities is achieving the best and most cost effective outcomes. The Government has sought further comment from stakeholders on the merits of a national approach and suggestions for an appropriate model. While the regulation of services to remote Australia would be unlikely to directly impact the Qantas Group, we offer the following views based on our experience in regional aviation.

As highlighted in our submission to the Issues Paper, Qantas is of the view that a national policy and common approach to the regulation of regional air services would be of benefit. Qantas would advocate a coordinated approach between federal and state and territory governments.

This would see the Commonwealth set a consistent national framework for determination of regulation of regional routes and the form in which regulation should exist. In this regard, we suggest that passenger numbers should be one of the key drivers to determine which routes should be regulated and that regulation should take the form of exclusivity of operation for a term of three to five years, with government subsidy where warranted.

The framework for regulation of Australian regional routes would guide the utilisation of a federal budget allocation between the states and territories. The federal Government contribution should not form the sole basis for funding, but rather the baseline of funding which states and territories would 'top up' based on the needs of their regional and remote communities.

We would see the role of state and territory governments broadly as follows:

- Determining which air services are 'essential' and which require regulation using the national policy framework as a guide;
- Determining the level of air services required by regional and remote communities on regulated routes;
- Determining the funding at a state or territory level to be allocated to regional and remote communities using the federal contribution as the baseline;
- Managing the tender and contractual process for awarding regulated routes to interested airline operators;
- Awarding and managing the payment of total (ie federal and state/territory) subsidies to airline operators; and
- Monitoring ongoing performance of the airline operator to ensure contractual terms are met.

We believe that this approach offers a number of advantages over the current arrangements. A national policy framework would underscore the importance of ensuring essential air services are provided to regional and remote communities in Australia. It would promote a holistic approach to the distribution of funding to remote and regional communities at a federal level, while enabling states and territories to add to these contributions based on their own assessments of the specific importance of essential air services in their respective jurisdictions. It would also ensure that states and territories remain responsible for determining the type of air services required by affected communities and managing these accordingly.

The features of the proposed model outlined above would, in Qantas' view, strike a balance between the involvement of federal and state and territory governments which should support effective and efficient decision making. Such a framework would also bring benefits for airlines in planning their regional networks.

CHAPTER 6: INDUSTRY SKILLS AND PRODUCTIVITY

The Green Paper notes the recent skills shortage in aviation and its apparent easing due to the recent downturn in economic activity. While global demand has certainly slowed, Qantas fully supports the Green Paper's recognition of the priority of ongoing investment in this area, as there is potential for the situation to change relatively quickly.

While the Green Paper recognises that Australia's aviation industry is contingent upon a highly skilled workforce, we believe that some of the policy settings could be fine-tuned to reflect this important correlation. Two key aviation occupations – pilots and engineers – are highly skilled, requiring a substantial level of personal investment and long lead time to proficiency. Lack of investment in the ongoing development of these skills would place the aviation industry at a disadvantage when needing to source these business critical skills directly from the marketplace at a qualified level.

6.1.1 Skilling Australia for the future

Qantas strongly supports the Government's Skilling Australia for the Future initiative as a mechanism to address skills shortages and increase workforce productivity through the Productivity Places Program (PPP) and role of Industry Skills Councils (ISCs). However, in our view there are some opportunities to further enhance the framework to deliver better outcomes for the aviation industry.

Qantas welcomes the funding made available through the PPP initiative and our ability to access national funding has to date been encouraging. However, our experience has found the dual system of both state and national funding streams to be complex.

Although Qantas recognises the vital role that the states and territories play in respect of education and training, we believe that large, national organisations would benefit from a centralised funding body. A national body would allow a single point of contact for industry for information on timeframes and plans to allocate funding, increasing the efficiency and coordination of this activity.

The Qantas Group's workforce encompasses a range of roles from highly skilled pilots and aircraft maintenance engineers, to management and IT professionals, cabin crew and customer service, to chefs and forklift drivers.

Due to its diversity, the Group could potentially be represented on a number of ISCs including – Agri-Food, Manufacturing Skills Australia (MSA), Transport and Logistics, Innovation and Business Skills Australia (IBSA) and Service Skills Australia.

The ISCs have been structured to ensure a direct link to industry and we have found this to be an effective framework in the case of maintenance engineers - a specialist employee group which is represented by MSA. However, the

disparate nature of the sectors and occupations that coexist within the Group mean that many are not so clearly aligned with a single ISC.

While the Skilling Australia initiative has been designed to provide flexibility, we have found that the number of ISCs can diminish the realisation of benefits that would be gained from having a clear, direct link to one ISC. The Qantas Group would welcome the ability to continue to coordinate the skills and training needs of all other groups, excluding maintenance engineers, through one ISC such as IBSA.

6.1.2 Education and training framework

Aviation training within the educational framework

- Air Traffic Controllers

The skill sets needed to support future air traffic management will change significantly with advanced automation. These needs will be driven by the ICAO Global Air Traffic Management Strategic Plan as well as regional and State plans. The emphasis in skill requirement will move from Air Traffic Control (ATC) to Air Traffic Management (ATM). Recent controller staffing issues have highlighted the need to be proactive in training and the need for broader operating endorsements.

- Aviation Security Personnel

Qantas supports the Green Paper's recognition that recruitment and retention of aviation security personnel presents a major challenge. We agree that the principles of a national Aviation Security Training Framework (ATSF) will assist with this issue. However, while these principles are sound, there are a variety of issues that still require resolution and further consultation with industry. We would welcome consultation concerning the implementation of the framework, including clarification of associated costs and by whom they will be borne.

As highlighted in Qantas' submission to the Issues Paper, the current regulatory training framework could be enhanced to ensure consistency of outcomes and application by screening personnel. In our view, a core element of this strategy would be the development of a single national aviation training authority and a single national licensing authority, both of which would most effectively be facilitated through a national centralised screening agency.

In the absence of this, it would be useful to clarify the relationship to the existing state-based security licensing requirement and the policy around the responsibility for ensuring the currency and consistent application of this framework over time.

6.1.3 A global labour market – Australia's arrangements for skilled immigration

While Qantas participates in a comprehensive range of skilling and training opportunities for Australians, there will always be a need to meet shortfalls arising from unforeseen circumstances and competing international demands for Australian trained staff.

The Temporary Business (Long Stay) Subclass 457 visa program has provided the Qantas Group with important flexibility to source overseas staff with skills not available in the Australian market across a variety of specialist roles, including IT, pilots, engineers and some language and culturally skilled cabin crew.

Qantas generally supports the findings of the Visa Subclass 457 Integrity Review released in October 2008, referred to in the Green Paper. We are particularly interested in contributing to the development of the two new lists of skilled occupations in conjunction with other industry bodies, the Department of Education, Employment and Workplace Relations and the Department of Immigration and Citizenship.

CHAPTER 7: CONSUMER PROTECTION

7.1.1 Consumer protection – the way forward

Consumer protection

Qantas welcomes the Government's proposal on consumer protection issues.

Consumer protection laws form an important part of promoting competitive markets and protecting consumers. As such, Qantas is committed to complying with these laws and has led the industry in applying best practice consumer protection standards.

Qantas therefore supports the recent introduction of all-inclusive pricing legislation within the *Trade Practices Act 1974* and the Government's proposal to work with its state and territory counterparts to monitor airlines' behaviour within the consumer protection framework to ensure consumers' rights are protected.

While Qantas believes that the current consumer protection arrangements are more than adequate to protect consumers, continued monitoring of airlines' and other air travel industry participants' (such as travel agents) compliance with the laws will ensure that the entire industry follows the standard set by Qantas.

Compensation arrangements

The comments and issues concerning compensation arrangements raised by Qantas in our submission to the Issues Paper are generally reflected in the Green Paper.

We look forward to the release of the Government's discussion paper as part of the comprehensive review of Australia's carriers' liability and insurance framework.

Qantas agrees that there should be further consideration of the draft ICAO Conventions and compensation for surface/land caused damage by aircraft, and we welcome the opportunity for discussion on these and other points noted in the Green Paper.

Disability access

The Qantas Group notes the Government's continued concern that "air travellers with disabilities continue to face a range of accessibility issues not experienced by other passengers" (p156) and that industry participants need to apply a better understanding of the needs of people with disabilities to improve their access to air travel via improvements to regulations, infrastructure, services and education.

The Green Paper indicates that the Government will detail its future strategies on disability access issues when it responds to the final report of the *Review of the Disability Standards for Accessible Public Transport* produced by The Allen Consulting Group. We assume that the Government will incorporate in this response its consideration of submissions to the Issues Paper made by the aviation industry regarding the carriage by air of people with disabilities.

The Qantas Group is cautiously optimistic that the newly established Aviation Disability Access Working Group will be effective in achieving progress in addressing the competing interests of the aviation industry and people with disabilities to effect appropriate levels of change and improvements to the current system for all. The Group would like to highlight our concern, however, that there have been similar working groups established by the Government over recent years with substantially similar mandates that have had limited success in progressing the issues identified and debated, and in actioning the initiatives for change agreed by the working group. We are hopeful that this group will achieve greater success in these areas.

The Qantas Group would welcome the opportunity for further discussion of the issues facing the aviation industry in the provision of services to people with disabilities travelling by air. In particular, we would like to discuss how best to implement change and improvements in the context of carriers offering different levels of services to customers generally, including to people with disabilities.

CHAPTER 8: AVIATION INFRASTRUCTURE

Qantas welcomes a number of the Government's proposed initiatives, particularly those related to enhanced coordination and clarity on planning issues. However, we believe there are further enhancements that could be made within the existing framework for economic regulation which would provide a more appropriate balance between the interests of airports and those of airlines and their passengers.

8.1 Planning at federal leased airports

Ensuring ongoing investment in airport infrastructure

The Qantas Group strongly supports the Government's desire to continue with regulatory arrangements that support investment in airport infrastructure. The proposal to create a "clearer framework for protecting airport operations from inappropriate development around airport sites" (p165) is important to ensure that airports continue to invest in providing the necessary infrastructure to support aviation growth without that investment being compromised by off-airport development.

Similarly, Qantas would support the close coordination of airport planning for the airport precinct including both on and off airport development. In particular the Group would welcome coordinated planning to ensure that as airports develop, the associated transport links (including road networks) that are required to meet the growth in passengers and freight are adequately planned for and developed in a timely fashion.

Airfield and apron congestion at major Australian airports has increased in the past three years. This has resulted in increased en-route flight times and inefficiencies, increased aircraft taxi times delaying aircraft arriving at gates, and increased gate holding. In recent years there have also been a number of procedural and operational changes which have impacted the Precision Timing Schedule (PTS), eg additional security measures. The impact of an airport not meeting a PTS is to delay a departure, adding directly to airfield congestion and contributing to rolling delays when aircraft patterns are tight. Operating from a constrained facility can lead to a poor customer experience through delays and missed connections, increased airline delay costs, poor aircraft utilisation and a negative public perception of the airport.

It is imperative that the timing of infrastructure planning delivers sufficient airfield, apron and terminal infrastructure when required to guard against congestion. Construction of non-active aircraft parking positions should be ahead of demand so that pressure can be taken away from the terminals.

Implications of the proposed Air Traffic Control system under review by Airservices Australia will also need to be considered when planning sufficient infrastructure to assist in creating an efficient, streamlined operating environment.

Future airport needs: the Sydney region

The Qantas Group supports the Government's commitment to identify additional aviation capacity for the Sydney region following consideration of the 2009 Sydney Airport Master Plan. Such a process is timely and will be critical to ensuring that future domestic and international aviation growth opportunities can be realised. The Group looks forward to being actively engaged in the processes towards achieving this outcome.

8.1.1 A more effective planning regime

Qantas welcomes the Green Paper's identification of the need for closer cooperation and oversight by the various levels of government. It is also pleasing to see that the Government has no intention to 'over-regulate'. From an airline perspective the most critical aspect of aviation planning is to ensure that necessary aeronautical infrastructure is delivered in a cost-effective and timely manner to facilitate growth. We would also note that, wherever possible, it would be desirable for planning coordination arrangements to apply to Defence as well as civil airports.

The creation of Airport Planning Advisory Panels for each major airport is a sensible way to facilitate a coordinated approach between levels of Government. However, the Qantas Group would be concerned if these panels added significantly to the timeframes for approving aeronautical Major Development Plans (MDP). The time involved for the construction of aeronautical infrastructure means that it is critical that the expert panel process is appropriately resourced. This will ensure that timely decisions can be made on proposed aeronautical developments within the current MDP timeframes. It is important that these operate under a clear structure with prescribed process check points and expedient dispute resolution.

Qantas also believes that it is important that these panels be established under publicly available terms of reference and comprise individuals who are independent and have no commercial connection to, or interest in the airport or the outcomes of the Ministerial decisions. Qantas would also suggest that the following matters should not be the subject of expert panel review:

- Safety issues and airspace management issues;
- Regulatory processes; and
- Commercial negotiations between airports and airlines.

Strengthening arrangements for community consultation

Airports have significant impacts on nearby communities. It is important that a balance is struck between legitimate community concerns and the efficient operation of the airport. In recent years a number of major airports have created community consultation forums at which they have sought to address the concerns of local residences and businesses. These forums have been set up independently of the existing legislative consultation requirements.

While the Qantas Group supports the proposed requirement for formal community consultation groups that would build on the existing informal arrangements, it would be useful to have clarity as to the remit of the proposed forums. Qantas would question whether such a forum should discuss all airport and planning issues or only those that are likely to have a significant community impact. For example, the installation of runway lighting or the construction of new taxiways may be critical for airport operations, but are unlikely to have a significant community impact.

More clarity about future planning

Qantas would strongly support the requirements for more detail about the immediate five-year planning horizons in Airport Master Plans (MP). Qantas would also welcome the introduction of a ground transport plan into the MP document. The process of arriving and departing an airport has a considerable impact on the customer journey, and it is one over which airlines are able to exercise little control. It is important that significant provision for free passenger drop-off and pick-up areas is made. Similarly, there should be appropriately priced short-stay parking available for 'meeters and greeters'.

Strengthening the triggers for Major Development Plans

The Green Paper notes the Government's proposal to review the triggers for the requirements for airports to submit MDPs, with a particular focus on community impacts.

Qantas would urge caution in extending the circumstances under which MDPs are required, without clear and detailed rationale underpinning the requirement for additional triggers due to the time and cost implications of preparing these plans. In Qantas' view the current triggers for MDPs are appropriate, however, the \$20 million threshold warrants review and could be raised given the cost of airport infrastructure and present construction costs.

With respect to the proposed new trigger for a MDP, Qantas would seek to understand in more detail what is meant by 'significant community impacts'. We welcome the foreshadowed consultation with relevant stakeholders in relation to the development of criteria for a Ministerial call-in power.

8.1.2 Safeguarding future aeronautical needs from inappropriate development in surrounding areas

The Qantas Group strongly supports the Government's intention to develop legislation and guidelines to safeguard airports from incompatible surrounding developments. Developments that affect the operations of airports can significantly impact the cost of airport operations, airport infrastructure and can have a detrimental impact on communities surrounding the airport. As the Green Paper makes clear it is also important that public safety zones are clearly defined and enshrined in local planning guidelines to ensure the safety of the public surrounding airports.

Qantas is concerned that the Government has suggested that it may investigate mechanisms for airports to contribute to the cost of public transport infrastructure and community infrastructure.

Infrastructure Australia, in its recently published report 'A report to the Council of Australian Governments', has made it clear where the responsibilities for infrastructure provision should sit. The responsibility for public road infrastructure is to be shared by the various levels of government, with specific responsibility being dependent on the type of road works being undertaken. Notwithstanding that an airport may be operated by a privately-owned company, the economic benefits that airports generate, through the facilitation of passengers and freight by airlines, is significant. They remain critical public infrastructure in the sense that they facilitate a fundamental transport service.

Predicted future passenger growth at major airports will almost certainly mean that additional road and rail infrastructure is required. There is a reasonable expectation on the part of the travelling public, airlines and indeed airport lessee companies that future infrastructure, particularly as it relates to off airport road and rail works, would be constructed and funded through existing Government channels. Where road infrastructure is needed on airport land, airports currently fund this development and recover these costs from airlines and non-aeronautical users of those roads. These roads do not amount to public transport as the ability for the public to travel on the roads is limited.

It is important to bear in mind that under the current pricing regime, any cost that is levied on airports to contribute to such infrastructure, unless expressly excluded from aeronautical charges, will be passed directly on to airlines and ultimately to passengers. This would also mean that airports have fewer funds available to undertake aeronautical infrastructure projects. Both these issues would create significant barriers to the efficient growth in the aviation sector and would affect the flow on benefits that aviation provides to tourism and the broader economy.

8.2 Economic regulation: balancing incentives to invest with fair pricing

Continuing the current pricing system

Qantas accepts the decision of the Government to continue with the current light handed monitoring of airports and welcomes the full review of Australia's airport economic regulatory regime in 2012.

Quality of service

The ACCC's publication of the 'Airport quality of service monitoring guideline' in October 2008 was a positive step towards ensuring that airports continue to be accountable for the level of service they provide to their customers. As natural monopolies, it is fundamentally important that there be close scrutiny of these services to ensure that appropriately maintained facilities are available for airline customers and their passengers.

Qantas also welcomes the Government's proposal to expand the scope of quality of service monitoring to focus on the customer experience as airlines are only able to control part of the total passenger experience. Qantas is committed to working closely with airports and the Government to ensure that the passenger experience at airports is optimised.

Qantas would suggest that the quality of service monitoring framework established by the UK Civil Aviation Authority to monitor Heathrow and Gatwick airports should be closely considered by the Government. This system links quality of service measures to the airports' aviation charges and provides for a mechanism to recover money from the airports (rebated to airlines) when standards are not met. This financial penalty provides a much greater incentive for airports to maintain service levels than the current 'name and shame' approach. It is also more consistent with a normal customer-supplier relationship where a drop in quality or service levels would ordinarily result in a drop in price.

Qantas would not support the inclusion of airline operated terminals in any quality of service monitoring process. It is not the purpose of the quality of service monitoring system to measure airline operated terminals as airlines do not set an aviation charge that is directly levied to customers for the terminal services or infrastructure. Rather, the cost of these services and infrastructure are factored into the price charged to an airline's customers. It is therefore up to customers to determine whether an airline has fairly priced its service at a terminal. If the customer does not consider that this is the case, they can exercise choice and not fly with that airline.

Car parking

Qantas has previously indicated our support for the ACCC's car parking monitoring of prices, costs and profits at the five major domestic airports. The impact of excessive car parking charges is not an issue that is limited solely to the travelling public, but also extends to the ability for airlines to undertake their operations from airports in a cost-effective manner.

As airport operations often take place outside normal business hours, and as many airports lack regular public transport, staff car parking is essential. Staff car parking is intrinsically linked with the ability of airlines and airports to function effectively. In recent years the Qantas Group has seen an alarming number of airports seeking to significantly increase the price of staff car parking. The increases are regularly benchmarked to 'commercial' car parking rates, and often come with a diminution of service or a compulsory move to a more remote parking facility.

In light of the importance of staff car parking and suitable transport for staff Qantas believes that the ACCC should extend its monitoring of car parking charges to include staff car parking charges and in particular that these be aligned to the cost of providing these services with an appropriate margin.

A tiered approach

All airports in Australia are natural monopolies. Given the size and geographic distribution of the Australian population there is little or no real competition between domestic airports.

Qantas has previously set out in detail the difficulties that are at times encountered when dealing with non price-monitored airports. In addition to the larger airports, smaller airports can and do undertake approaches to pricing that are not consistent with behaviours that could or would be undertaken by a service provider in a competitive environment. Regardless of an airline's size, if an airport decides to increase its prices and not provide any reasonable basis for such an increase, airlines are left with few, if any, options. The airline can stop flying to the airport, which is not in the interests of the airport, the airline or the public. Alternatively the airline can choose to not pay the increase, which can lead to protracted disputes. Other than these extreme options, there are no mechanisms available to readily resolve disputes.

Against this background, Qantas considers it essential that the Government create mechanisms to review the pricing practices of smaller airports. It is accepted that scaled-down monitoring may be appropriate for smaller airports, and it is not the Group's desire to see over-regulation of these airports. An appropriate level of monitoring would almost certainly be of benefit to airlines and passengers in ensuring airport charges are a reflection of an airport's investment in aeronautical infrastructure and improvements in services. As increases in charges are passed on (at least in part) to the travelling public, an appropriate level of price monitoring for all airports should be in place to protect the public as well as airlines.

Qantas would suggest that, as a minimum, a less onerous monitoring system for airports not currently subject to price monitoring should encompass the following principles:

1. There should be transparency in pricing and the ability for airlines to view airports' actual costs;
2. The Government should provide a detailed pricing methodology including the key pricing parameters and how to derive them at a point in time for airports (for smaller airports Qantas would suggest that a model based upon the Internal Rate of Return would be appropriate);
3. Increases in charges or costs must be linked to improvements in infrastructure or services;
4. Airlines must have input into determining the appropriate level of capital and operating costs if they are to be asked to pay for those costs; and
5. A binding dispute mechanism if commercial agreement cannot be reached - if there is a designated pricing model then this would typically be with regard to 4.

A show cause mechanism

Qantas welcomes the recognition of the need for greater regulation of airport pricing practices. The concepts of abuse of market power under the *Trade Practices Act* are aimed squarely at reducing competition. Obviously those concepts do not apply to the situation of a monopoly provider setting unreasonable prices. Given that the prices charged by airports are largely set unilaterally and across all users, the existing price restriction powers contained in Part VIIA of the *Trade Practices Act* are also likely to have limited impact in preventing price-gouging by airports.

Qantas has provided a separate submission on this issue in response to the Department of Infrastructure's invitation for comment on a draft aeronautical pricing 'show cause' guideline.

Dispute resolution

Qantas' experience has shown that declaration under Part IIIA of the *Trade Practices Act* operates as an incentive for an airport to act reasonably in commercial negotiations. However the time, cost and resources necessary to secure declaration significantly weakens the impact of that incentive. Qantas acknowledges the Government's recognition of this issue and is keen to participate in further consultation regarding the proposed reform of Part IIIA with a view to overcoming these impediments.

8.3 Major regional airports

Sustainable regional airports

Growth in regional aviation provides important benefits for many communities. One of the issues that will continue to hamper the growth of regional aviation is the cost of operating to smaller airports. Aviation infrastructure is expensive, and the development and maintenance of this infrastructure is a significant cost for regional communities and airlines. Where there are low passenger numbers over which to spread these costs it can lead to a significant increase in the charges for operating to an airport. Many regional routes are marginal in terms of profitability, and airport charges are a significant determining factor in the viability of airlines flying a particular route. It is imperative that costs are contained at these airports to ensure that the charges do not discourage passenger and route growth.

The Qantas Group strongly supports the need for investment in regional aviation infrastructure. However, it is important that airports take an appropriately balanced view of the need for improved infrastructure as against a speculative desire to upgrade infrastructure in an attempt to attract new passenger services. In recent years there have been many examples of airports seeking to significantly upgrade infrastructure to levels that far exceed the needs of airlines or passengers. In such circumstances airports seek to recover the cost of this infrastructure from existing airlines and their passengers, notwithstanding that it may have been built without the support of

airlines. In the absence of any mechanism to prevent such practices airlines and passengers will continue to face significant charges not linked to the level of infrastructure they require.

Unfortunately some regional airports also continue to see airport charges as a way of raising revenue for ancillary council services. When charges are indiscriminately raised and not linked with an improvement in airport infrastructure or services, it is very difficult for airlines to accept the reasonableness of such increases or to pass such increases on to passengers. Such pricing behaviour, particularly where there is no recourse to any regulatory pricing oversight, often leads to protracted disputes and, in extreme cases, RPT services being reduced or cancelled.

8.4 Use of Defence airports for civil aviation

The Qantas Group reiterates the need for a consistent and supportive policy framework to enable operations of civilian RPT jet aircraft to secondary aerodromes including selected military airfields. The ability to access and use selected military airfields is of course predicated on the assumption that national defence objectives are not compromised. Access to selected secondary airport infrastructure, in particular Defence bases offers a number of benefits to the airline industry and the travelling public. These include:

- The ready availability of airport infrastructure at selected RAAF base locations around Australia. The lead time required to develop the planning and subsequent development of infrastructure for capital city airports is considerable and complex in terms of approvals process;
- The opportunity to increase the efficient utilisation of existing military aerodrome facilities such as runways, taxiways and aprons and other hard stand infrastructure that may be currently utilised in a sub-optimal fashion;
- The ability for airlines to negotiate a more competitive and commercially sustainable aeronautical pricing outcome (or the need for pricing tension) which will ultimately enable the airline to continue to provide affordable air travel for the public. Pricing regimes should be guided by the same principles as those applying to civil airports; and
- The potential for Defence bases to seek some cost recovery for use of their facilities and thereby source an additional independent revenue stream.

CHAPTER 9: AVIATION EMISSIONS AND CLIMATE CHANGE

Qantas welcomes the Government's balanced approach to the issue of aviation emissions and climate change, and its recognition that, while aviation must play a part in addressing climate change, these efforts should occur "without unduly constraining the development of an industry which is crucial to the nation's economic growth" (p19).

In this regard, it is important that policy settings work together to foster an environmentally sustainable and internationally competitive Australian aviation industry. Climate change policies, the Government's review of Australia's taxation system, decisions on broader infrastructure development and integration, the development of a local biofuels industry, and Australia's involvement in multilateral fora will all play a role.

We believe that measures complementary to emissions trading can have a major impact on lowering the industry's carbon footprint. As highlighted in our submission to the Issues Paper, a 'green' accelerated depreciation policy coupled with investment incentives would speed the introduction of more fuel efficient technologies and low emission fuels. Access to the Climate Change Action Fund would enable the industry to co-fund projects that would deliver significant fuel efficiency benefits in the short term, for example Auxiliary Power Units at every airport, or in the longer term, the development of low emissions biojet fuel.

Industry capacity to manage emissions

Qantas welcomes the Government's recognition of the progress made by the industry in improving aircraft fuel efficiency. Since our submission to the Issues Paper in July 2008, we have taken delivery of three A380 aircraft and will have eight in service by the end of 2009. We have also retired older, less efficient aircraft including B747-300, B717-200 and Dash 8-100 models, and have plans to retire our B737-300 passenger fleet in the near term.

Since Qantas' submission on the Issues Paper, we have successfully collaborated with Airservices Australia on an ASPIRE (Asia and South Pacific Initiative to Reduce Emissions) Demonstration flight. ASPIRE involves Airservices Australia, the United States Federal Aviation Administration and Airways New Zealand working with airlines on a series of demonstration flights to highlight the potential for reducing emissions on trans-Pacific routes.

In October 2008, the inaugural A380 service between Los Angeles and Melbourne saved thousands of kilograms of carbon emissions by flying a 'perfect flight' under a joint initiative with Airservices Australia and ASPIRE.

The Green Paper also notes the importance of voluntary carbon offsetting schemes. Jetstar's carbon offset program continues to be successful, with 10 percent of passengers who book on jetstar.com electing to offset their share of flight emissions. In November 2008, Qantas enhanced its voluntary scheme, incorporating offsetting into the booking process and enabling

customers redeeming Frequent Flyer Award seats to offset with points. This has enhanced take-up rates significantly, with Qantas customers offsetting more in the first six weeks of the new program than they did in the first year of the original program.

9.1.1 The policy framework

The Green Paper recognises that with no alternative 'clean' fuel likely to be available in commercial quantities in the immediate future, aviation will remain a carbon-intensive industry. However, it does not focus on the development of a local sustainable low emissions jet fuel industry, which is critical to the future reduction in aviation industry emissions.

In Qantas' view, Australia is uniquely positioned to drive this development given its large areas of non-arable land.

Building an economically sustainable 'biojet' supply chain is not possible for an individual airline given the huge capital cost requirement and supply chain challenges. Government support and partnerships with industry will be critical to accelerate development.

Qantas would like to engage the Government on this issue, particularly as there have been promising developments with recent trials of biojet fuel exceeding technical expectations, and the industry's agreement to progress certification of biojet fuel in December 2008.

Domestic Aviation and the Carbon Pollution Reduction Scheme

Qantas has been involved in the Government's consultation process towards development of the Carbon Pollution Reduction Scheme (CPRS). We have several concerns in relation to the Government's CPRS White Paper released in December 2008 and its impact on the competitiveness of the Australian aviation industry.

Unlike many emissions-intensive and trade-exposed industries, aviation has not been included as an industry that will receive transitional assistance under the CPRS. This policy decision will introduce significant compliance costs for Qantas.

The inherent assumption that airlines can pass the cost of compliance on to the customer does not accord with the impacts modelled by Qantas, and in economic conditions present today, 'pass-through' of costs to the customer would be negligible.

Qantas supports a transitional approach for domestic aviation emissions with a realistic and achievable reduction trajectory, a low fixed carbon price and phasing in of obligations. The phasing in of obligations has become even more important in light of the global economic crisis and its impact on production and consumption.

Although the CPRS White Paper proposes to 'zero rate' the consumption of biofuels, increasing incentives to develop 'drop-in' alternative fuel solutions that generate lower carbon emissions over the 'life cycle' is not enough to accelerate the development of a local biojet industry. Complementary measures that will accelerate the establishment of a commercial Australian-based low emissions jet fuel industry such as those outlined above are also necessary.

International aviation emissions

We welcome the Government's recognition of the need to adopt a harmonised global approach to the management of international aviation emissions under the stewardship of ICAO's Group on International Aviation and Climate Change (GIACC) in line with the approach agreed in the Kyoto Protocol.

We note that since the Green Paper's release, Transport Ministers from 21 major countries met in January 2009 in Japan and issued a declaration reaffirming support for the primacy of ICAO in leading the development of global emissions trading. Transport Ministers have tasked ICAO with developing an implementation framework by the end of 2009.

We are pleased to see that the Government is "conscious of the potential impact of these proposals on the competitiveness of Australian carriers, particularly given the long-haul nature of services to Australia and the price sensitivity of tourist markets" and that it will "seek to ensure that differential impacts and competitive distortions which could unduly affect Australian carriers are avoided" (p185).

Preservation of ICAO's leadership in developing aviation specific elements of a new protocol is critical in this regard over the longer term. In the absence of a global scheme under the auspices of the United Nations, the application of regional and individual schemes to international flights, with their associated competitive distortions, is almost certain.

These issues have already surfaced in the context of the European Parliament's decision to subject flights to/from the European Union to its emissions trading scheme from 2012.

Individual governments have also begun to apply punitive and discriminatory environmental taxes to international aviation. For example, the UK government has announced it will increase its aviation passenger duty (essentially a departure tax) for long-haul passengers by an additional 120 percent compared with 20 percent for short-haul passengers based on 'relative environmental impact', even though the duty is not hypothecated for environmental measures. This approach will have a significant impact on the competitiveness of Australian tourism from the UK, one of our largest inbound markets.

Against this background, it is critical that the development of a global scheme emissions trading system for international aviation is concluded before the

proliferation of uncoordinated measures at national and regional level becomes irreversible.

9.1.2 Aviation emissions and climate change – the way forward

Working towards a better understanding of aviation emissions and their impact, including the development of tools for comprehensive carbon monitoring and footprinting, is an important part of the overall plan to reduce emissions. However, Qantas questions the value of the Government developing further aviation carbon footprint tools as foreshadowed in the Green Paper.

All three major Australian carriers have Government-accredited voluntary carbon offset schemes with publicly available carbon footprint tools. To achieve Government accreditation, the method of calculation of the carbon footprint uses the Australian Department of Climate Change emissions factors, and has been independently verified by a third party in order to also achieve Department of Climate Change Greenhouse Friendly™ accreditation. It is also audited on an annual basis.

Under the mandatory National Greenhouse and Energy Report System (NGERS), airlines will be required to report on their carbon footprint. There are similar systems under development in Europe and New Zealand. ICAO has developed a carbon footprint tool, as have other international bodies.

In view of these developments, we would prefer to see resources focused on measures that improve fuel efficiency or assist with the development, certification and commercialisation of low emission jet fuels.

CHAPTER 10: NOISE IMPACTS

10.1.1 Managing the impact of aircraft noise on local communities

Information sharing as a noise management tool

Noise information frameworks such as WebTrak, Airservices Australia's new online flight path information tool, which provide close to real time access to both noise and aircraft tracking information, allow access to those interested in receiving information regarding aircraft movements and their associated noise impacts. Qantas supports these initiatives, as education and communication are critical in maintaining an informed discussion around aircraft noise management.

Land-use planning and noise sensitive development

Qantas would welcome a consistent approach to land-use planning around airports facilitated by the Government working more closely with the Council of Australian Governments (COAG) and other appropriate forums. Land-use planning is an essential component of effective noise management.

Qantas supports the introduction of Continuous Descent Approaches, as the noise footprint of arriving flights is significantly reduced. Technological improvements and operational measures will provide the basis for long term benefits to communities living near airports.

Maintaining existing curfews

While Qantas accepts the Government's proposal to maintain the existing curfew arrangements at Sydney, Gold Coast, Adelaide and Essendon Airports, we believe certainty around ongoing operational constraints is important to allow effective planning.

As the industry grows, infrastructure becomes constrained, while on the other hand technological improvements reduce noise levels. Qantas would therefore hope the commitment to maintain curfews at these airports does not preclude the opportunity to revisit these restrictions in the future, particularly where technological advancement improves noise profiles over time.

Qantas agrees that transparency will increase with the Government's proposal to publish curfew dispensations at Adelaide, Essendon and Gold Coast airports, in line with procedures followed at Sydney Airport. We believe this approach is important in building effective relationships and creating a positive atmosphere for consultation with affected communities living around airports.

Other measures for reducing noise impacts

As a signatory to ICAO, Qantas welcomes the consistent use of the Balanced Approach to noise management at all Australian airports as proposed by the

Green Paper. The Balanced Approach identifies noise problems at airports and examines the various options available, including improved land-use planning, reduction of noise at the source, altering operating procedures and operational restrictions, to cost effectively address the noise problem. As noted in the Green Paper, noise management must be considered on a case-by-case basis, and tailored to the specific requirements of each airport. It is also important that operating procedures such as Standard Instrument Departures and Standard Arrival Routes are not changed in a way that would raise the risk profile of operations.

The Government has signalled its intention to assess future insulation projects against world's best practice noise attenuation and abatement initiatives, including those for night-time noise. Qantas would suggest that any insulation program should ensure that the administration and management of the scheme remains consistent with the existing operation under the Aircraft Noise Levy legislation. A separate single passenger fee and administration charging structure should exist through Airservices Australia, without an increase in administration costs to airlines.

In addition, Qantas would expect that future insulation programs are considered for existing residences only, and will not cover new buildings established within existing high-noise zones.

In Qantas' view, the Government's proposal to consider industry-funded noise amelioration programs where airport operations and air traffic changes place residences into existing high-noise exposure zones should involve wide stakeholder consultation, particularly where the criteria differ from Australian Noise Exposure Forecast guidelines. Proposed changes should result in a demonstrated noise and/or operational benefit.

Improved consultation with communities

Qantas notes that the Government proposes to investigate more appropriate roles for airlines – among other stakeholders – in aircraft noise management and mitigation.

While Qantas supports greater constructive consultation with the community regarding noise issues, these forums should not neglect the interests of the broader community. Qantas strives to reduce noise where safety and operational requirements permit, and is introducing new technology, including new aircraft, that provides environmental benefits. It is important that these noise mitigating opportunities remain visible alternatives. Qantas continues to be open and transparent with information to enable informed aircraft noise discussions at various industry forums. For these reasons, we believe our existing role remains appropriate. Clarification of roles may therefore be useful in this regard.