Towards a National Aviation Policy Statement

Response to Issues Paper

June 2008

Prepared by

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Executive Summary

Australia Pacific Airports Corporation welcomes the commitment of the Rudd Government to undertake a comprehensive review of Australia's aviation policy. Whilst Australia's aviation sector has served the nation well over the last two decades, policy making has been somewhat piecemeal and we hope this high level review will ensure coherence and consistency between various strands of policy.

Previous government reforms to the domestic aviation industry have ensured Australians enjoy excellent services at reasonable prices to facilitate their recreation, social and business travel needs. In relation to international services, whilst the general policy principles that appear to be broadly shared on a bipartisan political basis seem appropriate, the focus, transparency and vigour of the administration and the pursuit of these principles requires further work.

We share the concerns and experiences of many other parts of the aviation industry about the availability of skilled workers and managers. These problems affect airlines, airports, Airservices Australia, the Civil Aviation Safety Authority, governments more broadly and the general aviation sector. Whilst it is acknowledged that international and domestic labour market conditions cannot be ignored, the solution is not to be found solely in the accession to substantial wages demands. The core problem is that in many areas, particularly in relation to technical and operational areas, the work force is ageing and shrinking without suitable replacements being available at either entry or intermediate levels. We would strongly support any efforts of the Government to bring the industry together to find an industry wide approach to ensure that the skills the industry needs to remain safe and secure and to grow are available in the coming decades.

In our view, Australian airports policy is a model for other infrastructure sectors. Whilst we acknowledge there have been some tensions in the planning regime, these seem to have diminished over time and in any event are to be expected in any planning system. Where problems have emerged, many have been resolved within the structures provided in the Airports Act. There have been cases where inappropriate development has occurred but these seem to be more a reflection of poor decision making than a systematic failure in legislation. There is always a need to maintain the currency of planning frameworks but there is no compelling evidence that the existing framework is fundamentally flawed.

Australia needs a more co-ordinated approach to airport safeguarding in respect to noise, prescribed airspace and potentially radar interference from wind farms. Whilst Melbourne Airport benefits from excellent protection with respect to noise under Victorian planning law, this is not the case at many other airports and we are not aware of any major airport that has robust arrangements for the protection of

prescribed airspace. Again, the problem is not so much policy but administrative vigour and co-ordination of various levels of government.

Australia's approach to the economic regulation of airports since 2002 has facilitated massive investment to refurbish ageing assets and given the industry a degree of flexibility that would not be found in an environment of formal price controls. The "dual till" approach has ensured that prices have moved towards broadly reflecting long run investment costs and will ensure that in future the investment problems and pricing shocks that are currently plaguing airports in the south east of England that have developed under the heavy handed single till will not occur in Australia.

The current regulatory framework provides for another review of the regime by the Productivity Commission in 2012 and a show cause process to deal with instances of unacceptable airport conduct – none of which we are aware of currently. We would urge the Government to clearly endorse and commit to this process. To do otherwise will not only create uncertainty for airport investors and threaten the substantial investment programs the government is well aware of, it will also send a strong negative message about regulatory risk to other infrastructure sectors where private investment is critical.

For a range of reasons there is a need for increasing the level of investment at Australia's regional airports. There is a case for a transparent program of fiscal assistance for regional airports but care must be taken to ensure that what is a regional airport, as opposed to a secondary major city airport, is clearly understood and more generally that the impact on competition between airports, airlines, and different modes of transport are fully assessed before any investments are made.

Australia has an outstanding safety and security record due mainly to the diligence of airports and airlines and their staff. The time has come to put an end to the institutional uncertainty of our safety regulation agencies and to develop sound models for the development of an independent safety organisation. We support the pursuit of risk based approaches to safety and security management but remain concerned about the availability of appropriately skilled and experienced people to undertake this critical work.

The environmental outcomes at Australia's airports are world class, however the industry as a whole needs to address its impacts on the world's climate. Whilst the bulk of this task will inevitably fall on the airlines, airports too must adopt best practice in energy management to ensure the emissions they directly control are kept to a minimum.

The remainder of this submission provides more detail on our airports, our views on the issues discussed above and a range of other matters.

Glossary

ACCC	Australian Competition and Consumer Commission
AEO	Airport Environment Overlay, part of the Victorian Planning Provisions
Airports Act	*Airports Act 1997 (Cth)*
Airservices	Airservices Australia
ALOP	Airport Local Ownership Program
ANEF	Australian Noise Exposure Forecast
ARFF services	Aviation rescues and fire fighting services currently provided at Australian airports by Airservices.
CASA	Civil Aviation Safety Authority
CTFR	Counter Terrorism First Response – a service provided by the Australian Federal Police
Department	Department of Infrastructure, Transport, Regional Development and Local Government
FAC	Federal Airports Corporation
ICAO	International Civil Aviation Organisation
KSA	Sydney Kingsford Smith Airport
LCC	Low cost carrier
MAEO	Melbourne Airport Environment Overlay, the AEO that applies specifically to Melbourne Airport
MDP	Major Development Plan as defined in Part 5 of the Airports Act
Minister	The Minister of the Commonwealth responsible for the administration of the Airports Act and aviation policy generally
Part IIIA	Part IIIA of the Trade Practices Act
RPT	Regular Passenger Transport
T1	Terminal 1 at Melbourne Airport operated under lease by Qantas
T2	Terminal 2 at Melbourne Airport operated by Melbourne Airport for international services
T3	Terminal 3 at Melbourne Airport operated by Melbourne Airport for domestic operations, primarily used by Virgin Blue and Rex, formerly leased by Ansett
T4	Terminal 4 at Melbourne Airport operated by Melbourne Airport currently used by Tiger Airways, originally developed to facilitate the entry of Impulse and Virgin Blue.
Trade Practices Act	*Trade Practices Act 1974 (Cth)*
2007 Amendment Act	*Airports Amendment Act 2007(Cth)*

1 About us

1.1 Corporate structure

Australia Pacific Airports Corporation (APAC) has a controlling interest in two airport lessee companies – Australia Pacific Airports (Melbourne) Pty Ltd (APAM) and Australia Pacific Airports (Launceston) Pty Ltd (APAL). APAC remains active in seeking further airport investments that will increase shareholder value.

Melbourne Airport is the trading name of APAM. APAM is a wholly owned subsidiary of APAC and holds the airport lease acquired for $1,307 million for Melbourne (Tullamarine) Airport granted by the Commonwealth Government on 2 July 1997 under the *Airports Act 1996* (Cth) ("Airports Act") and several similar leases that have been subsequently granted over land ultimately needed for the airport.

APAC also has a 90% interest in APAL, the company that holds the airport lease for Launceston Airport granted by the Commonwealth Government on 28 May 1998. The City of Launceston has the remaining interest in APAL. This lease was acquired for $17 million.

APAC had the same four shareholding entities from 1997 until 2007 when BAA Ltd, the United Kingdom airport company sold its interest in APAC to the other three shareholders. These shareholders are major Australian funds managers. They invest on behalf of their clients through both listed and unlisted vehicles.

Table 1.1 shows the distribution of equity in APAC over time.

	2001	2006	2008
AMP Capital Investors	49.9%	40.99%	51.12%
RREEF Infrastructure (a division of Deutsche Asset Management)	25.0%	26.06%	32.50%
Hastings Funds Management	10.0%	13.13%	16.38%
BAA plc	15.1%	19.82%	-

Table 1.1: Shareholding of APAC

1.2 Melbourne Airport

Melbourne Airport is Australia's second largest airport in terms of international and domestic passengers and freight. Since sale in 1997, domestic passengers have grown at an annual rate 4.9% and international passengers by 6.6%. Figure 1.1 shows the general pattern of growth over the last ten years and the forecast growth

contained in the Preliminary Draft Master Plan recently published by Melbourne Airport.

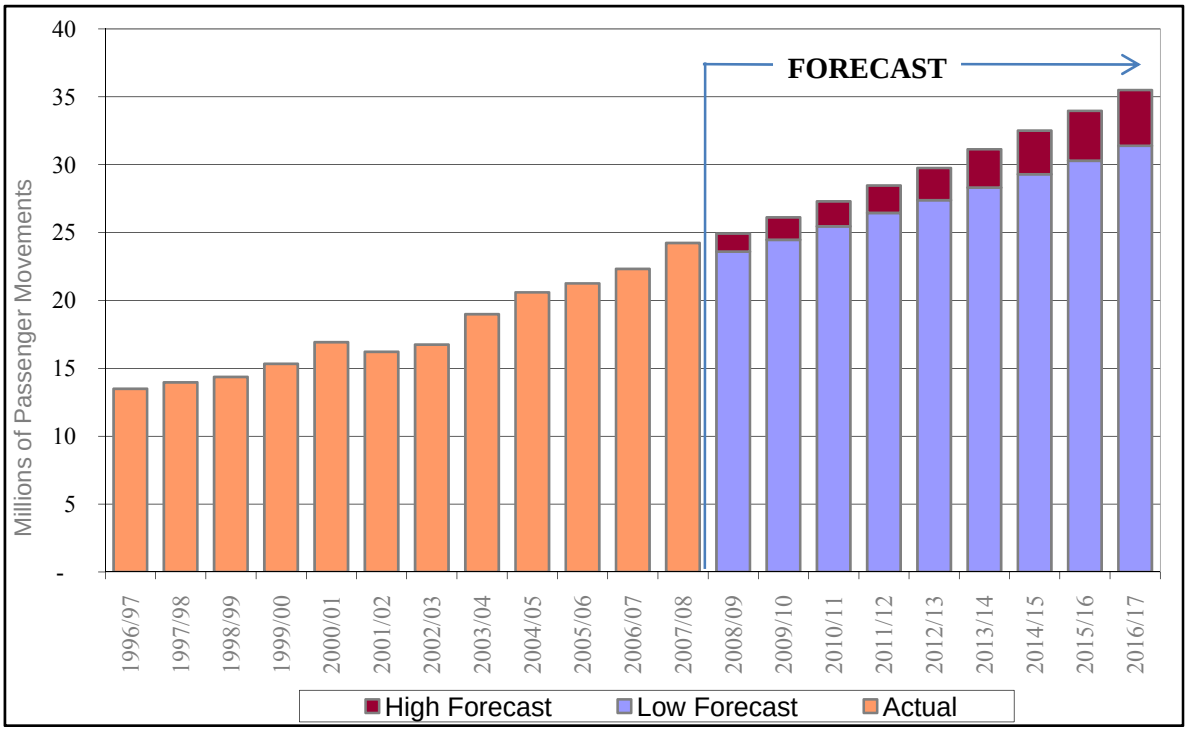

Figure 1.1: Development of Passenger traffic at Melbourne Airport

Domestic passengers

Since 1997, there have been a number of new carriers enter and leave the market however the more recent entrance of Virgin Blue and Tiger represents a stronger, more sustainable diversification of Australia's domestic aviation environment.

It is important to keep in mind that since June 2004, Melbourne Airport has faced direct competition from Avalon airport for services to the Port Phillip Basin. We estimate that Avalon is currently handing the equivalent of 1 million domestic passengers per annum, the majority of which would have otherwise used Melbourne Airport[1]. We understand that Avalon Airport is actively seeking to attract low cost international carriers and to grow its freight business.

In November 2007 Melbourne Airport became the first and home base of Tiger Airways in Australia. By May 2008, Tiger was already operating 182 weekly domestic services to 12 locations in Australia from Melbourne Airport. Tiger operates out of Terminal Four (T4), Melbourne Airport's dedicated low cost

[1] This is only an estimate as unlike every other RPT airport in Australia, passenger data is not published for Avalon Airport.

terminal that was originally built to facilita te the entry of Impulse and Virgin Blue. Melbourne Airport has upgraded T4 at a co st of around $5 million to meet Tiger's specific operational and product needs.

International Passengers

The success of Melbourne Airport's international passenger business has been based on its ability, in partnership with successive Victorian Governments, to work with international carriers to establish new se rvices to Melbourne. Figure 1.3 shows how the international pass enger market at Melbourne Airport has develope d since privatisation in 1997.

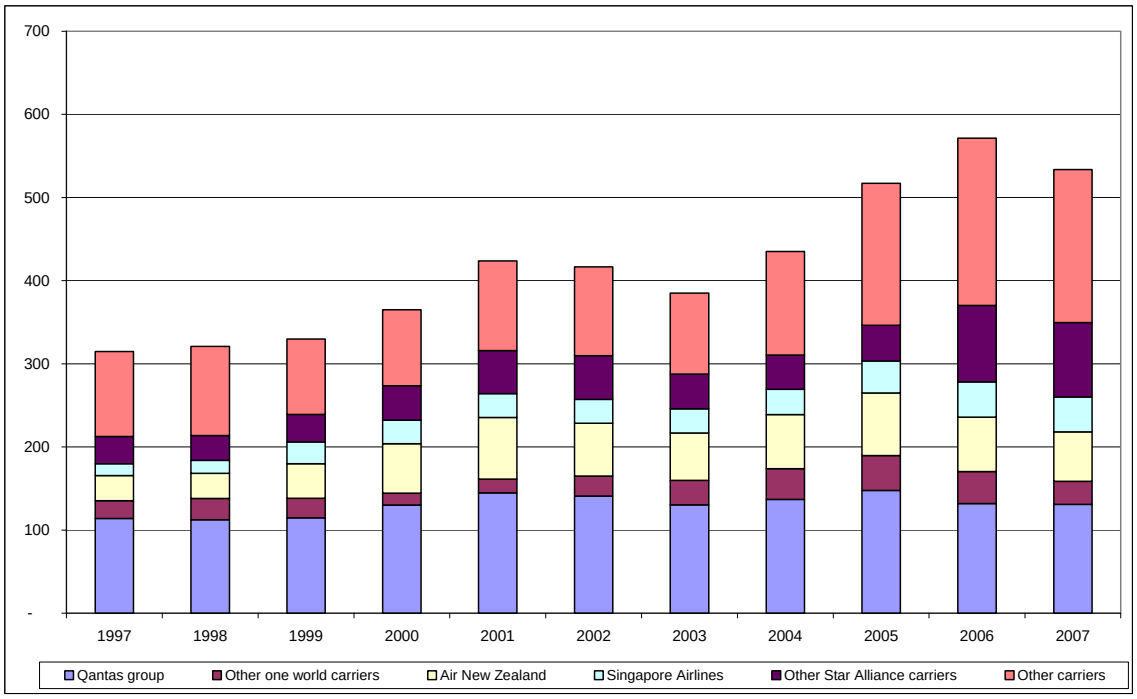

Figure 1.3: Weekly international services at Melbourne Airport

Despite the significant sh ift in international ma rket shares, the final origin/destination of interna tional passengers has been re markably stable as shown in Figure 1.4. This would indicate that the effect of new entry by inter national carriers has not been to open up new mark ets but rather to intensify competition in existing ones. It is also important to note that 12% of Melbourne Airports w eekly international services operate during the hours when other major Australia a irports are subject to curfew restrictions.

In coming years, we expect that the structure of demand will change with passengers travelling to and from China and India. We expect that this demand will be met by Australian carriers, carriers bearing the fl ags of those countries and ot her carriers that will operate through these countries and onto Europe and North America.

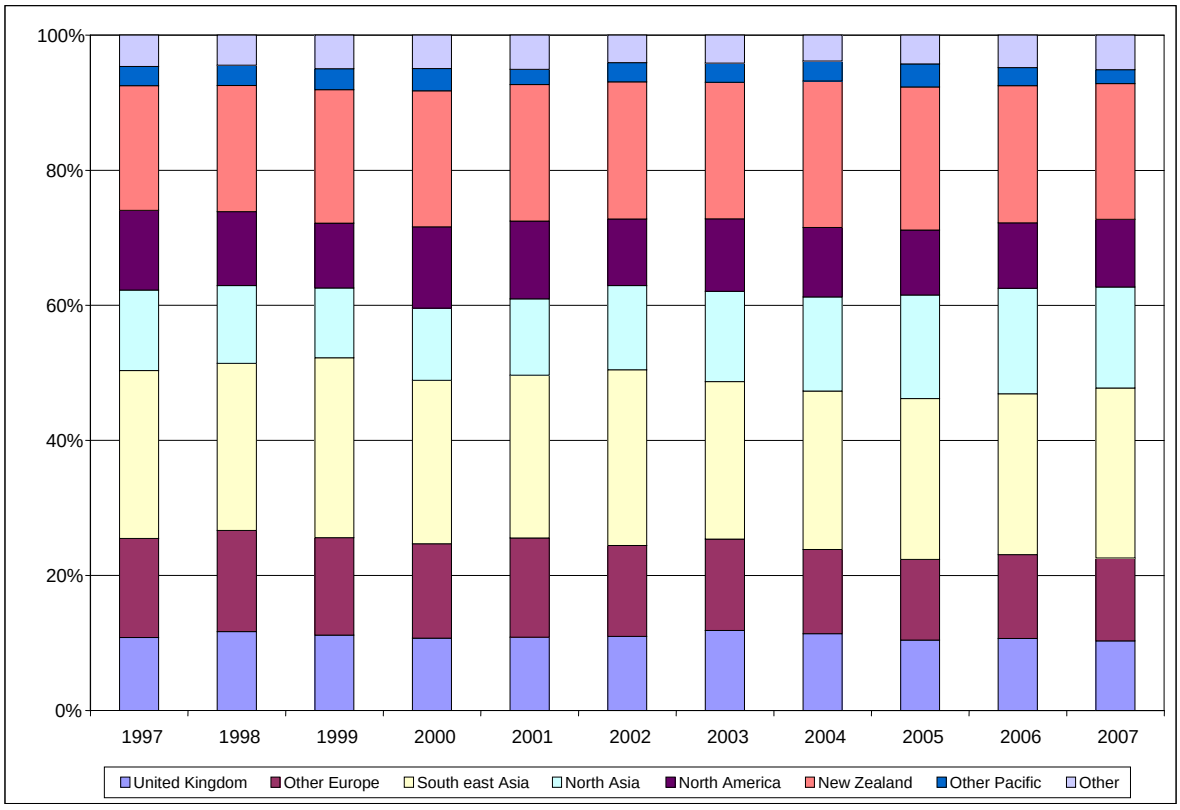

Figure 1.4: Final destination/origin of international passengers at Melbourne Airport

Freight

The physical, geographical and logistical attributes of Melbourne and its airport combine to ensure Melbourne Airport is firmly entrenching its role as the freight hub for Australasia. Melbourne Airport has five dedicated freighter parking positions on its Southern Freighter Apron, ensuring significant capacity for growth in air freight over the next decade. Melbourne is also the domestic airfreight hub for Australia, delivering freight to and from all corners of the country each day – the ability to do this is critically dependant on Melbourne Airport's curfew-free status. Cargo terminal operators at Melbourne Airport include Qantas, Menzies, Patricks, Australian Air Express and DHL, with Australia's postal service, Australia Post, having recently completed its Gateway facility at Melbourne Airport. Successive Master Plans have provided for expansion of cargo terminal, aprons and supporting landside infrastructure to meet demand when required.

Melbourne Airport handles more than 200,000 tonnes of international air freight per annum - giving it 35% of Australia's international freight market. In 2006, export airfreight through Melbourne Airport was valued at $3.6 billion and imports at $10.4

billion[2]. In addition to over 3,000 passenger flights per week that service Melbourne, there are currently 21 dedicated freight services arriving and departing from Melbourne each week. The international freight airlines currently servicing Melbourne are Australian Air Express, Malaysia Airlines, Cargolux, Cathay Pacific, Qantas and Singapore Airlines.

Development

In recent years Melbourne Airport has embarked on the most significant investment in airport infrastructure since the airport was opened by Prime Minster Gorton in 1970. APAC's consistent focus on delivering the facilities its airlines need to grow their businesses resulted in capital works of over $100 m being undertaken during 2006/07 alone. These works were part of the globally recognised commercial agreement entered into by Melbourne Airport with its airline customers when price controls were removed in 2002.

In November 2006 Melbourne Airport completed its two-year $220 million apron, runway and terminal project, which focused on building the infrastructure to meet the challenge of the Airbus A380. The final stage of this project was the opening of the airport's 5th international baggage carousel. This facility provides a double-sized baggage system and carousel designed to handle the bags of up to 550 people from an A380 aircraft.

Also opened during 2006/07 was Melbourne Airport's checked- bag screening system in Terminal Three (T3), the home of Virgin Blue, Skywest and Regional Express. Checked-bag screening systems had already been established in Terminal One (T1) and Terminal Two (T2). The completion of this $23 million project ensures Melbourne meets new Federal Government requirements for the x-ray screening of all international and domestic checked baggage.

Over $13 million was also invested in to apron and airfield upgrade works throughout 2006/07, including concrete slab replacement in key taxiway and aircraft parking areas, and a major upgrade of the airfield lighting system. This $7.7 million upgrade of Melbourne's airfield lighting system is set for completion in 2008/09. This upgrade will ensure aircraft can land and take off at Melbourne Airport at any time, even during poor visibility weather.

Looking forward, Melbourne Airport has commenced the largest upgrade of its international terminal (T2) since the airport was built in the late 1960s. When officiating at a turning the sod ceremony on 15 January 2008 the Hon Anthony Albanese, Minister for Infrastructure, Transport, Regional Development said "This is a great step in the development of one of Australia's most important pieces of

[2] Melbourne Airport (2008)

transport infrastructure" – infrastructure that was developed without funding from either state or Commonwealth sources and without the need for intrusive economic regulation.

Consisting of a number of individual projects, these expansions will make enormous changes to T2 – adding a total of 25,000m² of new space - and will roll out over the next 5 years at a combined total cost of over $330 million.

The first of these key projects will be completed in 2010, with the construction of a new outbound international passenger security and Customs processing zone. Creating a new outbound passenger screening area, this project will increase security stations from 6 to 10, and increase Customs desks from 18 to 24. Security will also now be located before Customs – reversing the current sequence and improving passenger flows into the international passenger area.

Melbourne's international baggage capabilities will also be enhanced to improve efficiency, with space for an additional two A380 baggage carousels being created as part of the expansion projects. Baggage delivery for outbound flights will improve by 50% - from 3000 bags per hour to 4500 bags per hour by 2012.

A completely new 7,000m² passenger concourse will be also added to T2, providing 5 new aircraft parking bays – including three gates with dual-level aerobridges, which will each be able to accommodate one A380 or two smaller aircraft. This area has been designed to maximise parking space for aircraft.

An entirely new international passenger precinct will be created by 2011, which – along with a major redevelopment of existing facilities – will add more than 5,000m² of new passenger lounge, café, duty free and specialty shop space to T2. The new precinct will feature 10-metre high windows providing spectacular views into the airfield, and has been designed to incorporate signature elements and design features of Melbourne architecture.

It is important to stress these works form the core of the commercial agreements Melbourne Airport entered into with its airline customers in 2007 following the decision of the previous government to continue a light handed approach to airport price regulation.

1.3 Launceston Airport

Since the airport was acquired in 1998, passenger numbers at Launceston Airport have grown at an annual rate of 8.2% per annum as compared to the national average of 5.4%. The resilience of this market, and perhaps the Australian domestic market as a whole, is perhaps best shown by the fact that in the year that Ansett collapsed, passenger numbers still grew by 1.7%.

Launceston is currently serviced by Qantaslink, Jetstar, Virgin Blue and Tiger Airways who collectively provide 178 services a week to Melbourne (142), Sydney (28) and Brisbane(8), making Melbourne the gateway to northern Tasmania. Australia's newest domestic airline, Tiger Airways commenced daily operations on 29 November 2007, with its first service offering in Tasmania, between Launceston and Melbourne.

Tasmania is served by four airports: Hobart, Launceston, Devonport and Burnie. Hobart and Launceston airports are located within two hours driving distance of one another, a short distance compared to that required to be travelled by passengers accessing other major interstate airports. The Devonport and Burnie Airports are similar distances from the Launceston Airport.

In addition to aviation services, Tasmania is serviced by the *Spirit of Tasmania* (Devonport) with passenger and vehicle services augmented by substantial sea freight terminals at Hobart, Bell Bay (Launceston), and at Burnie on the North West Coast. At various times, there have been other passenger services, most recently a high speed ferry operated between Welshpool in Victoria and Georgetown just east of Launceston however this proved not to be commercially viable.

This is part of a wider picture of a loss of market share in recent years in sea transport which has occurred despite significant subsidisation of the *Spirit of Tasmania* by the Tasmanian Government and the Commonwealth Government through the Bass Strait Passenger Vehicle Equalisation Scheme. The Bureau of Infrastructure, Transport and Regional Economics (and its predecessors) monitors the scheme and publishes a report annually. A cursory glance of reports in recent years indicates not only a systematic decline in sea travel's market share for both Tasmanians and visitors to the state but also a decline in the absolute number of adults travelling on vessels on Bass Strait.

Development

Launceston Airport is set for the largest upgrade of the passenger terminal building since the terminal was constructed and opened in 1965.

The project will consist of three main parts that will provide Checked Bag Screening and new check-in counter areas, new baggage reclaim facilities, with the use of two baggage carousels and new passenger lounges and screening facilities. This will approximately double the floor area of the terminal allowing greater space for passenger movement and associated activities. The project will be constructed by mid 2009 at an estimated cost of around $18 million – this is more than APAC and the city of Launceston paid the Commonwealth for the airport lease in 1998.

The first of the three parts of the project, the checked bag screening and check in counters is expected to be operational by December 2008, as required by Federal legislation for passenger security. The other two areas will come on stream in stages over the remaining construction period. Unlike Devonport and Burnie Airports, its competitors in northern Tasmania, Launceston Airport expects to have to fund these vital security works itself without assistance from the Commonwealth or Tasmanian Governments.

The fully revitalised terminal will provide a new experience for passengers using Launceston Airport. The refurbishment of the departures area will allow a single location for all airlines to provide check in facilities at the 12 new counters. These counters are linked to a new baggage handling system as part of the new checked bag screening process for all baggage travelling on aircraft.

The new passenger screening point will increase the level of space provided to passengers during the screening process. For departing passengers new apron level gate lounges of approximately 1200m ^{2} provide space and security for passengers waiting to board aircrafts. For arriving passengers, a new baggage handling building of 500m^2 incorporating two new baggage carousels will improve baggage reclaim activities for passengers.

For attending public, an expansion of an additional 1000m ^{2} of the main passenger public lounge area and refurbished retail areas, will provide additional space and seating areas with a view of the apron and runway.

Construction of the first stage of the Launceston Airport terminal redevelopment commenced in late May this year. The various projects are being staged over the next 18 months in a way to ensure passengers are not adversely affected by the works.

2

The Australian Aviation industry

2.1 International markets

In 2006/07 only coal contributed more to Australia's exports than tourism. At $22 billion, tourism exports exceed motor vehicle exports by a factor of six. It exceeds the combined value of wool, wine, LNG, medicaments, copper, iron and steel and dairy products[3]. Aviation is also a key input into the export of educational services, our fourth largest export sector and is vital for the interaction of other export sectors with their customers and markets.

As discussed later in this submission, unlike other major export sectors tourism does not face congested bottlenecks at their primary export facilities – our international airports. However, tourism is confronted by market access issues arising from Australia's bilateral aviation agreements with other countries. These agreements effectively act as quotas on both imports and exports in ways that have long been seen as unacceptable in even the most protected of merchandise trade sectors such as automotives and textiles, clothing and footwear.

It is ironic that the sector that facilitates the marketing and business development activities of our most trade exposed sectors (both import and export) is subject to the world's most Byzantine trade arrangements

We welcome recent open skies negotiations with the United States and would support further progressive liberalisation of these markets as and when the conditions are appropriate. This is not to say that air services agreements alone shape market development. There are now only two European carriers flying to Australia - British Airways and Virgin Atlantic, and both only to Sydney. In the last decade Austrian, Olympic and Alitalia have all withdrawn from Australia and British Airways no longer operates its own aircraft to Melbourne. These withdrawals have not been related to rights under agreements, but rather are the result of decisions by airlines in difficulty (Olympic and Alitalia) and code share agreements with Asian or Australian airlines. However, it is clear that international air services agreements, which are based on relationships between nation states react very slowly, if at all, to market developments.

The Regional Airservices Policy is effectively a unilateral open skies policy with respect to all airports other than Melbourne, Sydney, Brisbane and Perth. It did not seem to remove any constraint that was obstructing access to the airports affected – we are not aware of any new services that have commenced that would not have occurred under other arrangements. This is further evidence that market realities,

[3] See http://www.dfat.gov.au/aib/trade_investment.html and http://www.atec.net.au/

and in particular route yields and demand, are the driving force for the development of new services.

Whilst we support the efforts of local and state tourism agencies to encourage airlines to commence services – indeed we actively work with the Victorian Government ourselves in this regard – rather than being evidence that governments should use air services agreements to force foreign carriers to operate to regional airports, the experience of this policy suggests to us that such policies are likely to be equally ineffective.

In 1998, the Productivity Commission reviewed air services arrangements and found, among other things:

- The 50-year old bilateral system is unable to cope with growing demands for international air services.
- The system's constraints hurt airlines and their users — travelers the tourism and air freight industries.
- The Australian Government, like many others, has been loosening restraints, but not fast enough.
- Unilateral 'open skies' are not the solution for Australia[4].

Ten years on, these observations hold true.

The basic intent of policy is flawed however its success or failure will hinge on the effectiveness of the manner in which the policy is implemented. We support the principles set out by the previous Minister in April 2006, principles which have been generally accepted on a bipartisan basis for well over a decade. These include:

- recognise 'open skies' as an aspirational goal to be sought on a case-by-case basis, where it is in the national interest;
- negotiate capacity for air services ahead of demand, to allow airlines to make decisions and provide for competition and growth;
- maintain and expand access to a range of aviation hubs;
- recognise the contribution an Australian- based airline industry makes to the economy
- encourage major foreign carriers to commit to a long-term presence in Australia;

[4] PC (1998, p xxi)

- address Australia's trade and economic interests;
- continue to attract more services to the regions and smaller states by offering unlimited access for airlines to all airports other than the four gateways of Sydney, Melbourne, Brisbane and Perth;
- grow the air freight market by seeking unlimited access for freight aircraft from Australian markets to and beyond the markets; and
- continue to reform the bilateral air services system by:
    - seeking to designate airlines through their principal place of business, rather than through ownership criteria; and
    - continuing to seek liberalisation through multilateral forums such as the International Civil Aviation Organisation (ICAO) and World Trade Organisation (WTO).[5]

We have been encouraged by the recent release by the current Minister of the Government's own forecasts of growth[6]. The real challenge though is to link these forecasts with other Australian Government (such as from the Tourism Forecasting Committee) and industry market forecasts to deliver a better strategic focus for planning and critically, execution. It is essential in such a process to ensure developments in major outbound markets, reflecting the travel needs and preferences of Australian businesses and residents, be properly addressed.

This analysis would enable assessment of current seat and expected capacity against future demand, and provide a framework for priority. There are many agreements that have been pursued or renewed that have little commercial advantage to Australia. While they may be seen as minor, they all consume resources and often at the expense of larger more vital negotiations. Further, the agreement between the United Kingdom and Australia took a decade to increase its agreed capacity, indicating not only the lethargy of policy administration but also a failure to focus resources on those agreements which deliver the greatest benefit to the nation.

The capacity contained in agreements with countries such as China are rapidly approaching capacity. The industry needs to know when the Government will commence work on expanding capacity and the expectations of how long such agreements will take to conclude. The Government needs to provide more definitional clarity of what is meant by " capacity ahead of demand" and link that in a transparent way to the triggering of negotiations with other countries as well as its relationship to the prioritisation of resources. The emergence of Asian and Middle

[5] See http://www.minister.infrastructure.gov.au/wtr/releases/2006/February/018WT_2006.htm

[6] See http://www.minister.infrastructure.gov.au/aa/releases/2008/June/AA056_2008.aspx

Eastern carriers as major participants in ma rkets to third countries also needs to be recognised.

Consistent with the notion that air servic es negotiations should reflect Australia's wider trade and economic interests, particular attention needs to be paid to emerging markets. Policy needs to be s ufficiently flexible to enable arrangements with emerging markets "of the day" and ensur e they are not restricted by pre cedents contained in agreements with more developed countries or argum ents about Australia's national interest resting on t he airline indus try which are not supported by clear and robust commitments to the development of new markets. Australia need to work more collaboratively with China and India in par ticular to identify barriers to improved access to, from and beyond these countrie s for Aus tralian and other carriers that may wish to use them for intermediate stops. Similarly, Australia needs to continue to work collabor atively with those countries in south-east Asia that operate hub airports into Australia to ensure their policies do not inadvertently constrain capacity into Australia.

The liberalisation of Air Rights arou nd the world is changing the aviation environment in which we operate. In such an environment Australia runs the risk of being overlooked as a destination for inte rnational air services. We encourage the Government to adopt policy settings that respond to the geogr aphic challenges Australia faces particularly in terms of its proximity to key international markets around the world, and would welcome initiatives that support this.

2.2 Domestic markets

We agree with the views expr essed in the Issues Paper th at objectives of the policy decisions taken in 1990 to dere gulate domestic (interstate) aviation ha ve largely been met. We note also that similar po licies pursued by the states in relation to intrastate services, albeit after the Comm onwealth and at different times, ha ve led similar policy outcomes. We consider that the general approach taken by successive governments to the dom estic market (broadly defined) has served Australia well, especially noting the resilien ce it has shown since the colla pse of Ansett. There is no need for any policy reform in this area.

2.3 Regional Services

Over the last decade there has been significant change in regional aviation services. Whilst some services have been lost, espe cially immediately after the collapse of Ansett, the entry of a range of carriers has substantially increased services between

major regional communities and major cities, especially in Western Australia, Queensland and on the New South Wales coast north of Sydney.

As will be indicated in section 3.4 we believe there is a case for direct fiscal support for regional airport infrastructure in certain circumstances. Similarly, we would generally support direct fiscal support of services to remote communities to ensure they have access to services enjoyed by people who live in larger towns and cities.

However, we are concerned that measures to support regional aviation should not distort competitive outcomes either between airports or transport modes and should not effectively tax users of those services not involved with the provision of services to regional Australia.

Airservices Australia

We opposed the move by Airservices Australia to a network based pricing for Aviation Rescue and Fire Fighting (ARFF) services provided to Category 6 aircraft and we do not support its continuation and potential extension as outlined by the then Shadow Minister on 23 November 2007. This position is independent of the ownership nature of the ARFF service provider. Further, we are deeply concerned by recent suggestions that Airservices Australia is looking to extend this approach to terminal air navigation services[7].

Our policy views on this issue were put to the ACCC when it considered Airservices Australian price notification in late 2005 – these are on public record[8] and we would urge officials preparing advice for the Government to consider them in the wider context of transport policy as well as the White Paper. Further, given that there is now significant experience of market conduct under pure network pricing, location specific pricing and the current hybrid model, consideration of this issue in a transparent way would be greatly assisted by the Department commissioning an independent analysis of the benefits that have accrued to regional communities under the more network based approaches or alternatively the damage done to them by location specific charges. Such a study should also consider what benefits would accrue if location specific charges were extended to terminal navigation. We would consider the Productivity Commission an appropriate body to undertake this piece of work.

This was the first occasion where the issue of the impacts of Airservices Australia's commercial policy had the potential not only to impact on competition between airlines but also between airports. This relates not only to competition between

[7] BARA (2008)

[8] Our submissions to the ACCC can be found at http://www.accc.gov.au/content/index.phtml/itemId/752616.

Melbourne and Avalon, which is our primary concern, but also between the Gold Coast, Brisbane and Maroochydore airports in south east Queensland. It is our position that this has exposed the difference between regional airports on the one hand and small airports servicing large, almost continuous conurbations on the other. As domestic and international markets continue to develop, the potential for well intentioned policies supporting regional Australia having unintended effects on competition between airports and airlines will increase as will the consequences of those effects. The Government needs to carefully consider this issue and provide certainty about its approach going forward otherwise it will risk stifling investment in infrastructure and route development by airlines serving major capital cities.

Bass Strait subsidisation

The Commonwealth and the States should be mindful of their potential to adversely impact on the competitive position of regional aviation through policies related to other transport modes. We have long been concerned that policies of both the Commonwealth and Tasmanian State Governments to support passenger services on Bass Strait are pursued with scant regard to the impacts these have on aviation services to Tasmania.

Since September 1996, the Commonwealth Bass Strait Passenger Vehicle Equalisation Scheme has operated. This provided additional assistance to passenger ferries on top of that historically provided by the Tasmanian Government through its underwriting of TT-Line and other operators. The Scheme provides a rebate against the fare charged by a ferry operator to transport a driver plus passenger vehicle by sea across Bass Strait. Until October 2007 the rebate was $150 per passenger vehicle (one way) when it was increased to $168. The recent Commonwealth budget gives effect to the Rudd Government's election commitment to provide a rebate of up to $360 for a return trip ($180 one way)[9] from 1 July 2008. The value of this rebate greatly exceeds the current cost of a return ticket to Launceston from Melbourne – the primary source of self drive holiday makers to northern Tasmania. This increase (from $300 to $360 per return trip) provides an increased subsidy of $25.9 million over five years. The Budget Papers show that the annual cost of the scheme will now be around $35 million per annum.

This scheme in recent years has been a demonstrable failure. Indeed, it is arguable that the subsidy has induced inefficient investment in sea capacity which has now been removed. Since 2003, when the Tasmanian Government increased capacity, market share (in terms of passengers) has fallen from 22% to 14% in 2006[10]. This is not only a result of aviation growth but also an absolute decline in sea-going

[9] Swan and Tanner (2008).

[10] BITRE (various)

passengers of 13% over the same period. Our understanding of the market is that 2006-07, for which data has not yet been published by the BITRE will show a further absolute decline.

In the spirit of transparent and fact-based policy development, we would urge the Government to request the Productivity Commission to undertake a formal review of the assistance provided to all passenger transport modes across Bass Strait as input not only to this review but future budget considerations of both Governments.

2.4 General Aviation

Much of general aviation operates in relatively tenuous economic circumstances yet provides a wide range of services to the community and serves as a training ground for many professionals who will ultimately pursue careers in the "heavy end" of the industry. In some cases, especially in relation to pilot training, it has become a source of valuable export income and has served to underwrite the ongoing operations of, and clustering at, some regional airports.

General aviation has been an area of policy neglect for many years and we welcome any serious attempt to address this situation. Our views on the two major issues, skills and infrastructure, are set out in sections 2.5 and 3.5 respectively.

2.5 Workforce and skills issues

There has been much written recently about lack of trained and skilled pilots. Rex has reduced services as a result and has taken the strategic step of in-sourcing its pilot training. Jetstar will recruit 75 overseas pilots to support its growth.

In February of this year a Senate Estimates Committee was advised by a senior executive of Airservices that there was a shortage of air traffic controllers and this was leading to service interruptions. Melbourne Airport has experienced delays because of inadequate staffing of the tower and is concerned that this apparent lack of skilled resources also extends to procedure designers, noise assessments, crane assessments, endorsements and the publication sections

Similar shortages are being experienced in the airports sector. Airport planning, airfield standards, obstacle limitations assessors and specialist engineers are now in short supply and a number of regional airports must rely on consultants many of whom are of retiring age. In some cases consultants are not willing to take on small scale projects at regional airports.

In addition to the ageing of expertise, the rapid growth of the Chinese aviation industry has created significant demand for skilled Australian staff, consultants and

executives. This problem is a reflection of the general shortage of young people seeking to pursue careers in the transport and other technical sectors that require both degree and technical training and is exacerbated by the demand (and remuneration) that the mining sector is currently providing for this part of the labour force.

There is no overall strategy in the airport industry to develop and train staff, and much depends on the focus of different airports at any given point of time. The former airport inspector and pavements specialist courses are long gone and even some of specialist obstacle limitation and aircraft courses previously offered by Civil Aviation Safety Authority (CASA) appear to have been scaled back. The dismantling of the Federal Airports Corporation (FAC), whilst the correct decision overall, removed some opportunities for career progression planning within the airports sector The Department has undertaken to provide a security training framework for regional airports, but in three years little has come of it and there is yet nothing in place.

Similarly, there is no strategy to integrate industry wide training to enable people with generic aviation skills to move between parts of the industry or to ensure that in years to come the industry has high quality leadership in commercial, technical and operational areas. Cross functional training is particularly important for secondary and regional airports which otherwise need to rely on costly and centralised consultancy services. Regional airports face the ongoing challenge of retaining staff presented with more lucrative and challenging careers with larger airports and airlines.

Whilst it is for the industry to ultimately solve these problems there does appear to be a lack of a co-ordinating force to bring together the various industry participants and training service providers to work through these issues. This is a national problem (which we understand is also being felt in New Zealand). We welcome the Government's Aviation Training Package as an important first step in this regard and we urge the Commonwealth to continue to provide strong leadership in relation to aviation industry skills development.

2.6 Airline ownership issues

The Issues Paper raises the apparent anomaly that domestic airlines can be 100% foreign owned whilst international carriers need to remain majority Australian owned with other rules applying to the ownership of Qantas by certain other airlines. In the latter case, whilst we understand the political and policy circumstances that prevailed at the time, we can see no compelling reasons why these rules should persist and why issues relating to the ownership of Qantas by its potential competitors should not simply be dealt with under Section 50 of the Trade Practices

Act as is the case with any other Australian airline and most other globally competitive industries in Australia.

In relation to the 49% foreign ownership limit, we first note that a similar limit exists for airport lessee companies that lease airports under the Airports Act and a number of former government owned businesses. Whilst we can see no good public policy reason for this restriction, we have not experienced any difficulty in sourcing capital to finance our operations and investment nor are we aware of other airports experiencing difficulties – we understand from its public comments over a long period of time this is an issue for Qantas. If this limit was to be removed for airlines, we can see no reason why it should not be removed for airports although we do not see this as a high priority for airport policy or investors.

International air services agreements usually require airlines seeking to access the rights of a state, to be owned (in a majority sense) by residents of that state. It concerns us that this arrangement effectively disadvantages Australian carriers from participating in the current round of airline consolidations especially as European carriers can consolidate with carriers from other European Union member states. As part of further liberalisation of international aviation arrangements it would be appropriate for the Australian Government to consider adopting a position that would facilitate investment opportunities for Australian companies in overseas airlines and vice versa and that in the long term the nationality of airline ownership should cease to be an issue in gaining access to international aviation markets.

3 Aviation Infrastructure

Australia has adopted a largely market based approach to the provision of necessary aviation infrastructure. It is our view that of all Australia's infrastructure industries, the airports sector has been the strongest performer.

In addition to our general preference for market based outcomes, government policy should be directed to ensuring that adequate aviation infrastructure is available in all markets where such an infrastructure can be economically justified.

In our submission to the last review conducted by the Productivity Commission, we presented evidence (undisputed by other parties) that demonstrated that over the last decade Australia's airports have been profitable, quality is high, investment is strong and prices by world standards are in most cases relatively low[11]. This position was confirmed by Engineers Australia in 2005 when it rated the adequacy of twelve infrastructure sectors and found only one Australian Infrastructure sector – the airports sector – could be rated as "good"[12].

Whilst this result is in no small measure due to the diligence shown by current and previous owners, a key element of this success is to be found in the policy framework (both in terms of the Airports Act and economic regulation) developed for the industry by previous Federal governments.

Mindful of the fact that all policy frameworks require constant updating due to changing market and economic circumstances and in response to specific events (some brought on by participants "pushing the envelope") it is our fundamental view that the existing overall policy has served Australia well and will continue to do so into the future.

3.1 Planning at major airports

There has been much debate in recent times regarding the planning arrangements at airports leased from the Commonwealth. Whilst our comments here will be directed at those airports, it is important to note that there are a growing number of significant airports including Cairns, Newcastle, Maroochydore and Avalon that are subject to other arrangements. In developing policy in relation to airport planning in the future the Commonwealth needs to keep in mind the impact its principles may have, in a flow on sense, on these airports. The Commonwealth should also keep in

[11] See Melbourne Airport (2006), TRL (2006a,b)

[12] Engineers Australia (2005)

mind that the Airports Act applies to a wide range of airports in different planning and market contexts. In particular with respect to airports in south east Queensland, the Port Phillip Basin and potentially greater Sydney, the Commonwealth needs to make sure that in pursuing legitimate planning policy outcomes at leased airports that it does not distort emerging competition between airports either in favour of those leased from the Commonwealth or against them.

Aviation development

It appears that most of the tension that has emerged in the area of development has been in relation to non-aeronautical development. Before turning to that issue, it is appropriate to briefly reflect on "the main game" – the development of aviation infrastructure. In this regard, the Airports Act has and continues to perform well. However, we believe that in relation to a range of aviation developments there is scope to significantly reduce regulatory burdens whist at the same time improving transparency and public confidence in the planning framework.

In the United Kingdom, when airports seek approval to undertake major aviation capacity expansions they typically seek permission to expand up to a certain level of capacity, expressed as an annual passenger throughput and/or aircraft movement figures. Where this does not involve new runways, this typically will give them an "as of right" approval to develop terminals, aprons and associated aeronautical assets to support a particular level of throughput. The nature and scope of supporting ground access facilities arises from a detailed surface access strategy.

We believe that consideration should be given to incorporating this sort of aeronautical development consent into the master planning process in the Airports Act although we consider it appropriate that major runway projects should remain subject to the Major Development Plan (MDP) provisions. The facilities being developed are usually extensions of existing terminals, aprons and related facilities or are located within the general vicinity of existing aeronautical assets and usually at reasonable distances from surrounding residential areas. Any impacts that effect surrounding residential areas or supporting infrastructure are the result of the growth in aviation traffic rather than the specific development proposed.

Whilst removing the need for a significant number of uncontentious MDPs it would ensure more robust focus on those issues that related to the aviation growth of an airport by bringing immediacy to the consideration of supporting land transport infrastructure. It would also provide more certainty for both airlines and airports when negotiating longer term pricing agreements.

The current MDP process also addresses the specific environmental impacts of projects in more depth than contained in Airport Environment Strategies. If this reform was to be pursued then the relevant environmental impacts and associated

mitigation measures would need to be addressed in the Airport Environment Strategy. In such circumstances, it would seem sensible for the Airports Act to be amended to require airports to consult on, and submit to the Minister for approval, their Master Plans and Airport Environment Strategies simultaneously. This is currently the practice of most airports and would not lead to significant additional compliance costs.

Non-aeronautical development

That non-aeronautical development on airports has led to more controversy than probably all of the other issues associated with the industry combined is not surprising. On the one hand, particularly in the first few years after privatisation, most parties were still trying to determine how the regime would operate in practice. There were some airports adopting an aggressive position on property development to support their acquisition financing arrangements especially once the Asian Financial Crisis, SARS, a heightened security environment and the collapse of Ansett had adversely affected their revenues. Good consultation practices by airports were still being developed – the guidelines recently issued in this regard are welcome, albeit overdue, and supported. Similarly, local and state authorities were learning how to be an important consultee rather than a decision maker in planning issues in which they had legitimate interests. Also, competing land owners had to confront a source of competition from organisations that were to a large extent new entrants into quite concentrated and often non-competitive property markets.

In the case of Melbourne Airport our non-aeronautical property development is complementary to aviation development and general urban planning arrangements in the north-west of Melbourne and the Metropolitan Planning Strategy. In addition to providing local employment, it provides a physical buffer between 24-hour airport operations and residential areas near the airport – this role is also performed by commercial developments on the other side of the airport boundary. If our tenants did not have access to sites on the airport, it is likely that they would seek sites that might otherwise be available for higher and better uses, including residential, and could even drive up the price of already scarce residential land in Melbourne. Also, many activities located on the airport have a substantial logistics component. By locating these close to the airport, the Western Ring Road and the Tullamarine Freeway, the level of urban congestion and emissions is lower than what it might be if these activities were located elsewhere in metropolitan Melbourne.

A number of perceptions about non-aeronautical development that have developed over time which appear to us to be more the stuff of myth than on the ground reality:

- *Airports have an advantage in the property market over other developers.* We very much doubt this is the case. If it was, given the scale of property

development in Melbourne in the past ten years, Melbourne Airport would not still have cattle grazing on undeveloped industrial land. Airports are significantly disadvantaged as property developers by their inability to offer freehold title and a number of other technical issues related to the leasehold title they hold from the Commonwealth. Beyond that, the types of developments that can occur in such proximity to the airport are limited by considerations relating to operational aircraft – most notably noise, lighting, security and potential bird hazards.

There is a perception that the airports' planning framework gives airports "an easy ride". When the Department conducted a review of the Airports Act a number of years ago we provided an independent report from Parsons Brinckerhoff that showed whilst the airports framework differed in varying respects from general state planning regimes (which themselves differed substantially from each other) it did not confer any particular advantage. We are not aware of any major development in policy that would have changed this situation but in the name of transparency and evidence based policy development, we would suggest the Department itself commission such an analysis of the current situation and make it available to all participants in this process.

- *Non-aeronautical development is threatening aviation development.* Other than perhaps the retail development at the end of the third runway at KSA (which was rejected by the then Minister – evidence that the framework is working) we are not aware of any proposals that evidence this view. The primary method of preventing this from occurring is the Master Plan. We would have expected in the event an airport was to act in a manner that did not provide for the necessary land for aviation services into the future, this would quickly be brought forward by state and local authorities and the airlines. If these concerns were valid we would expect the Minister would take corrective action if it had not been taken by the airport in response to these comments. Where the issue is not so much with land allocation but impacts on aircraft in flight, as we have seen in the KSA case mentioned above, the current arrangements are operating well.

- *Non-aeronautical development is incompatible with surrounding off-airport land uses.* Again, to a significant extent, this should be dealt with in the Master Plan. Airports in developing their Master Plans are required to use the land-use definitions contained in the planning law of the states in which they operate. Whilst accepting the historical realities that airports are where they are, proposals brought forward by airports for non-aeronautical developments that are incompatible with surrounding uses should be easily identified and rejected by the Minister in the first instance.

This is not to say that appropriate zoning is all that is required. Most land-use planning definitions are fairly broad in their description and the impacts of individual projects need to be fully assessed via the MDP process in a number of regards and in particular traffic generation and nuisance to surrounding residential areas in the same way as these issues are addressed under state-based planning schemes. Especially with the passage of the 2007 Amendment Act, there is ample capacity for the Minister to seek further information on such issues, consult with relevant third parties, place conditions on approval and ultimately reject the proposal.

Without going into specifics, there are some non-aeronautical projects that have been approved at other airports (with or without conditions) which in our view may not have been appropriate. However, we do not see these to be the result of poor policy or a failure of the legislation but rather poor decision making on the part of the Minister of the day. Further, we are firmly of the view that these isolated examples do not make a case for substantial amendment to the Airports Act.

- *Non-aeronautical developments are affecting the commercial viability of off-airport competitors*. Such is the nature of competition. One might equally say that commercial activities of off-airport competitors such as Westfield are affecting the commercial viability of airport operators.

  Whilst it is appropriate that the development of the airport site is done in a way consistent with and mindful of wider metropolitan planning considerations (airports are not islands as the Issues Paper notes) it is not the purpose of the airports planning framework, or indeed any planning framework, to restrict competition or favour one class of land owners over another. As a general principle, competition in this regard can be expected to lead to increased employment and lower prices for working families.

  The available land-uses on leased airports have been abundantly clear since the first Master Plans were made available for public consultation in 1997 and indeed, some of these reflected and were a continuation of the land development policies of the FAC – there has not been a sudden flooding of the land market with airport land. Indeed a number of metropolitan planning schemes, such as Melbourne 2030, clearly recognise the importance, availability and potential uses of land that have been set out in airport Master Plans.

- *The $20 million trigger limit for MDPs is too high*. In 2006 the Amending Act increased the trigger level for MDPs to $20 million from the original level of $10 million that was set when the legislation was first introduced in 1995. Since that time, construction prices have increased substantially.

Table 2.1 provides a snapshot of how construction prices have grown over time.

	Non-residential building construction	Non-building construction
New South Wales	71%	44%
Victoria	67%	46%
South Australia	49%	46%
Western Australia	91%	53%
Queensland	78%	60%
Australia	71%	49%
Period	Sep 96- Mar 08	Sep 98-Mar 08

Table 2.1: Growth in Construction Prices[13]

It should be further noted that these price increases do not include the impact of the goods and services tax imposed in 2000 which is included in the cost base for MDP purposes. By way of example therefore, a building in New South Wales that would have cost $10 million in 1996 would now be expected to cost around $18.1 million today, a similar building in Western Australia would cost just over $21 million. It seems therefore that the current level has simply maintained the real cost of construction.

Building cost inflation has accelerated in recent years, largely as a result of increased demand arising from the minerals sector and cost increases in key construction materials including steel, glass and cement. Global trends, the ongoing buoyancy in the minerals sectors and the infrastructure development plans of the Commonwealth and State Governments will see construction price pressures continue.

To avoid unnecessary regulatory burdens being placed on airport development, as in many other areas of public policy, it would seem appropriate to index the trigger level annually in accordance with non-residential building costs.

- *Airports are not required to consult, or do not consult adequately, with local and state authorities*. This is neither our practice nor our experience. The Airports Act places considerable consultation obligations on airport lessee companies in relation to Master Plans and MDPs. These were strengthened by 2007 Amendment Act and in some cases go further than what is required of other developers.

13 Source: Table 15 of Producer Price Indexes, Australia (ABS cat. no. 6427.0)

We suspect that the issue in this regard is some, perhaps the majority in some cases, of the views expressed in Master Plan and MDP consultations by these authorities have not been acted on by the airports concerned – the Commonwealth can of course examine this in more detail. As noted above, this might be due to the entities involved adjusting to being consultees and not decision makers.

Our experience is that there is little feedback from state or local authorities in relation to MDPs – of the nine MDPs Melbourne Airport has produced material negative feedback has been provided on only two of these. Again, the Commonwealth is well placed to assess the success or failure of that consultation but we would suggest that the consultation was extensive and that the legitimate interests of all parties were appropriately addressed.

In reviewing our MDPs and Master Plans, a number of these would have simply lead to additional costs with no additional benefits, others simply reflect a failure to properly read documents and others seem motivated by favouring one developer over another without an over-riding public policy purpose.

As can be seen from the above, our experience is that the current planning framework does not have serious systemic problems. Where poor outcomes have occurred they have more to do with poor decision making than fundamental problems with the Airports Act.

That said, it is clear from the Issues Paper and other sources that the Government has serious concerns with the planning provisions of the Airports Act. Regrettably, the Issues Paper does not make clear the areas the Government is particularly concerned with. Whilst we are sure these will emerge in the Green Paper, given the importance of these issues not only to airports but other major stakeholders, we believe it would be appropriate that further public consultations occur prior to the publication of the Green Paper so that all stakeholders can have input into the options being considered.

3.2 **Safeguarding**

Noise

The impacts of noise from aircraft in flight is a major issue for airports around the world. Melbourne Airport and successive Victorian Governments have worked jointly together to develop planning policies which ensure the economic growth of Victoria through the facilitation of aviation growth by maintaining Melbourne Airport's curfew free status. This has required an absolute focus on developing a

cooperative and responsive relationship with the local neighbours and communities and it is a key strategic activity to continue to earn the trust and support of our stakeholders by operating and growing our airports responsibly and communicating clearly.

Whilst airports manage the relationship with their neighbours international experience shows success in this endeavour requires having significant support from the air traffic services operator, in our case Airservices, in terms of clarity of information, regular accurate reporting and great customer service to respond to public concerns regarding noise. This needs to come in the form of quality representation at local Noise Abatement Committees and providing such bodies with accurate, specific and timely information about decision making processes and standards of operation. The challenge is for the airport and the air traffic services provider to involve the community in an overarching strategic way as opposed to simply seeking *ex post* justification of current positions and previous decisions. These efforts would be greatly assisted by the Commonwealth providing clarity around its expectations in relation to the responsibilities of airports and Airservices which appear to have become blurred overtime.

The precise nature of the problems and the available solutions will vary from airport to airport. That said, we briefly set out the approach that has been adopted in Melbourne below and suggest that Commonwealth might seek to explore similar arrangements with other states where it may be appropriate.

Land use controls for the areas around Melbourne Airport have been in place for approximately 15 years. The purpose of these controls is to ensure that the efficient operation of Melbourne Airport and its economic benefits to Victoria, both now and in the future, are not adversely affected by inappropriate land use and development in the noise-affected areas surrounding the Airport. In 2002 it was estimated that Melbourne Airport's curfew free status contributed $127 million to Victoria's gross state product. This had risen to $309 million in 2008 and is forecast to continue to grow. If Melbourne Airport had been subject to a curfew in 2002, there would have been 2680 less jobs in Victoria. In 2008 this figure is estimated to be in excess of 4,600[14].

Land use controls for the areas around Melbourne Airport were first implemented by the State Government in 1992. The introduction of the Victoria Planning Provisions in 1996 introduced the Airport Environs Overlay (AEO) which was based on the 1992 Melbourne Airport Environs Area controls. The AEO is a standard provision in the Victoria Planning Provisions that can be used by any airport in Victoria. In May 2007 a new overlay, the Melbourne Airport Environs Overlay (MAEO), was introduced into the Victoria Planning Provisions. This overlay incorporates

[14] Sinclair Knight Merz (2008)

improved and enhanced provisions specifically for Melbourne Airport in accordance with the outcomes of the Melbourne Airport Environs Strategy Plan 2003.

The purposes of the MAEO controls are to:

• Ensure that land use and development are compatible with the operation of airport in accordance with the Master Plan and with safe air navigation for aircraft approaching and departing the airfield.

• Assist in shielding people from the impact of aircraft noise by requiring appropriate noise attenuation measures in new dwellings and other noise sensitive buildings in accordance with the airport's Ultimate Capacity ANEF and Australian Standard AS2021-2000.

• Limit the number of people residing in the area or likely to be subject to significant levels of aircraft noise.

• Require planning permits for certain developments and the subdivision of land with provision for notification of the airport operator.

The MAEO controls generally apply to land on the approaches to the airport's existing and proposed runways. The MAEO boundaries are based on the recommendations of AS2021 and the 2003 Ultimate Capacity ANEF boundaries. The boundaries of MAEO Schedule 1 are defined by the 25 ANEF contour and the boundaries of MAEO Schedule 2 are defined by the 20 ANEF contour.

Details and requirements of the MAEO1 and MAEO2 are contained in the Local Planning Schemes of the five Councils covered by these controls: Hume, Brimbank, Moonee Valley, Melton and Whittlesea. In accordance with AS2021, the controls of MAEO1 are more restrictive than those of MAEO2. For example, under MAEO1 certain noise-sensitive uses such as schools, hospitals and certain types of accommodation are prohibited, whereas MAEO2 requires a permit for these uses.

All new noise-sensitive uses in both areas are required to be assessed for AS2021 acoustic requirements.

Airspace protection

After noise the other most significant form of protection necessary for the immediate and long-term operation of an airport is the protection of its surrounding airspace from physical intrusions such as tall buildings or towers and non-physical intrusions such as industrial chimney discharges and bright lights.

Whilst Melbourne Airport's Prescribed Airspace is protected by the Commonwealth Airports Act and Airports (Protection of Airspace) Regulations, there is evidence that this is not widely known or understood by developers, local government

officers/councilors or the general public. In Victoria, unlike in some other States, the Prescribed Airspace requirements are not in corporated or linked into local planning schemes in any way. While the MAEO controls land use in relation to noise, there is no equivalent planning scheme mechanism in the Victoria Planning Provisions that enables the height of structures or other land use/emissions that may impact on Prescribed Airspace to be considered or controlled.

We consider that improvements to the Victorian planning system need to be made to provide greater certainty and rigor in relation to protection of Melbourne Airport's Prescribed Airspace. There are a number of possible initiatives which Melbourne Airport is currently pursuing to address this issue in consultation with the Victorian Department of Planning & Community Development. We are confident that this process of joint working with the Victorian Government and active stakeholder engagement will deliver outcomes of the same quality and robustness of the MAEO. However, we are aware that there have been significant difficulties in relation to airspace intrusion in other states and there might be some merit in the Commonwealth providing leadership in the development of national guidelines.

An emerging issue in airspace protection in other jurisdictions is that of radar clutter. The development of wind farms in areas such as the west of Scotland and the Thames Estuary have posed significant challenges in respect to en-route and terminal air traffic management systems. Essentially, the problem is that it is difficult in many cases for an air traffic controller to reliably separate a spinning turbine from an aircraft. Despite attempts to deal with the issue in planning law, resolution of this issue has proved extremely costly and time consuming for all participants – airports, air traffic management providers, planning authorities, aviation safety regulators and wind farm developers.

This does not mean that wind farms and airports are incompatible. Indeed East Midlands Airport in the United Kingdom will become a carbon neutral airport in part by developing a small wind farm on the airport site. What is required to achieve this is early identification of where turbines can be sited without interfering with air navigation systems.

We would urge the Government (perhaps through Airservices Australia) to work proactively with the states to ensure that prohibited areas for wind farms are identified, protected and their location communicated to the proponents of these important future facilities. If this is not done and turbines are erected in inappropriate locations, many tens of million dollars will need to be spent on additional radar equipment and reprogramming of air traffic management systems.

3.3 Economic regulation of airports

In 2006, the Australian Council for Infrastructure Development commissioned Access Economics to review the regulatory policy arrangements for a range of infrastructure industries[15] on the criteria of:

- independence;
- efficiency focus;
- transparency, predictability and consistency; and
- accountability.

Sectors were rated very poor, poor, fair and good. Only the airports sector received a rating of 'good'.[16].

The current airport regulatory regime –based around prices monitoring and the legitimate threat of re-regulation - is the primary policy reason why Australian airports do not suffer from a systemic problem with airport infrastructure and current levels of investment are so strong. This is because the current regime has:

- provided the industry with a degree of flexibility to adapt to volatile market conditions;
- allowed the first meaningful commercial negotiations betweens airports and airlines over the capacity, service level and price of infrastructure services; and
- allowed different outcomes over issues such as risk sharing and contract length that suited the needs of the airport and airlines.

There is no doubt in our mind that if the arrangements in place immediately post-sale had persisted or had been replaced by another form of price control, the industry would not have adapted as effectively to events such as the heightened security environment or the collapse of Ansett. The regulatory system could still have been utilised to frustrate new entrants to the market; there would have been less competition between airports; and more importantly, costs for airlines, businesses and working families would have been higher. Airport charges would still have risen to around the levels they are at today but the cost to business of those increases would likely have been far greater if regulatory price setting were to have been pursued. This reflects the costs of regulation, both in terms of time, effort

[15] Access Economics (2006)

[16] Some sectors individual state regimes were rated good although the sector as a whole was rated lower because of much poorer regimes in other states

and staff hours required to engage in a regulatory process and affects airlines, airports and the regulator themselves. Commercial negotiations can often be concluded in a matter of months, whereas the most recent pricing review conducted by the ACCC took 12 months.

Reviews and outcomes in airport regulation

The Productivity Commission reviewed airport regulatory arrangements (in relation to both aeronautical and non-aeronautical activities, including car parks) in 2002 and 2007. These reviews were extensive and public – indeed it is our view the processes of the Productivity Commission represent best practice in regulatory policy development and review[17].

Airport operators and airlines in good faith and relying on the robustness of this policy have entered into a range of commercial arrangements and capital development programs to upgrade quality and capacity at Australia's major airports. In the first five years of this policy between 2002 and 2007, we invested $348 million at Melbourne Airport of which $227 million was on aeronautical assets. In the period from 2007 until the next expected review in 2013, we expect to spend over $500 million at Melbourne Airport of which more than $400 million is expected to be on aeronautical infrastructure. In the next five years we expect to invest around $35 million in aeronautical assets at Launceston Airport – more than twice the airport's purchase price. This investment was agreed directly with users rather than through regulatory processes, and is a program we remain committed to.

Single vs dual till pricing

An important issue that was resolved in the 2002 review, and re-affirmed in the 2007 review, was whether a 'single' or 'dual till' was the appropriate way to approach the regulation of airport prices. Airports are multi-product businesses. In some markets for their services they enjoy some degree of market power. In others they face multiple competitors and a variety of easy substitution possibilities for consumers. If price regulation is imposed on such an entity, the question arises - should it be imposed upon the whole operation, or only upon those services which exhibit some natural monopoly characteristics? The former option describes a 'single till' model of price regulation; the latter a 'dual till' model.

The answer is reasonably straightforward. If government is concerned about the possible abuse of market power, in the market for the provision of a particular service, then it should regulate the market for the provision of that service, and that

[17] Our submissions to these reviews Melbourne Airport (2001, 2006) are available on the Productivity Commission's website

market alone. The costs and revenues of other services, provided by the same company, should not be the concern, let alone the target of regulators. This is especially true when the other services are far from being natural monopolies. This principle is explicitly reflected in the pricing principles contained in Part IIIA of the *Trade Practices Act (Cth) 1974* and is the reason why many Australian regulators isolate the competitive parts of businesses from those where firms have clear market power (for example in respect of electricity distribution and retail businesses).

Sound policy dictates that regulation should only extend to those services where market power exists and is likely to be used in a way that damages economic efficiency. This should lead on its own merits to the dual till approach being favoured over the single till approach. Beyond that, we believe that the single till should be rejected because

- it is difficult to see how single till pricing could conform to government policy of reducing the regulatory burden on businesses – it would not be possible to implement a single till in a light handed way without it being *de facto* profit regulation;

- the arguments in favour of the single till approach generally advanced by airlines centre on issues of distribution of profits from airports' retailing and parking businesses. There is no evidence, empirical or theoretical, to suggest that such transfers enhance economic efficiency. If anything, the evidence is to the contrary. The implementation of the single till at Heathrow, Gatwick and Stansted has led to underinvestment, poor quality services and poor responsiveness to changing airline needs;

- in the United Kingdom the single till has been used to regulate its largest four airports: Heathrow, Gatwick Stansted and Manchester – no other airports in the United Kingdom have been regulated and the United Kingdom Government has decided recently to no longer regulate Manchester. Whilst prices at these regulated airports have been mid range for many years, they are now growing rapidly at Heathrow and Stansted and to a lesser extent Gatwick in order to redress the underinvestment caused by the single till. This is because the single till will over time drive the price of aeronautical services away from, and below, the long run incremental cost of new aeronautical capacity. We saw this in Australia and this is why a 'one off" adjustment was required in 2002 to deal with the legacy of the FAC's single till prices inherited at the time of sale. This is not to say that price adjustments will not occur under a dual till (especially in environments where the cost of new infrastructure is significant higher than existing infrastructure) but rather under a dual till, especially where the pricing and investment arrangements are reached through commercial negotiation rather than regulatory gaming, adjustments will be significantly smaller; and

- the single till will not address issues associated with use of market power in the provision of non-aeronautical services. If there is a case to regulate these, by monitoring or in some other way, then those services should be dealt with directly. For example, a single till will not protect car park users but rather simply transfer profits generated by car parking from airport shareholders to airline shareholders.

As far as the single till is concerned Australia does not need to adopt this failed British experiment.

Advent of low cost carriers

The Issues Paper asked whether given the impacts brought about by the advent of Low Cost Carriers (LCCs) changes should be made to the currently regulatory framework. Our very strong view is that the current policy approach has encouraged entry and business development of LCCs and hence facilitated competition in the domestic market. The CEO of the most recent entry into the domestic market, Tiger Airways, recently noted "we have many many airports in Australia knocking on our door week after week… we are very positively encouraged by the airport reaction"[18].

The presence of intrusive price controls gives incumbent operators opportunities to frustrate the development of facilities for new entrants such as Ansett's attempt to frustrate the initial development of T4 for Impulse and Virgin Blue.The advent of increased competition in both domestic and international markets, in part but not entirely due to the entry of LCCs, has led to greater range of quality standards being required by airlines. This creates a challenge for quality monitoring and especially in making comparisons over time – if LCCs demand a lower level of service and their market share grows over time then it is possible that the measured aggregate quality of service at an airport will fall. This would not however be the result of an abuse of market power, as traditional regulatory theory might suggest. Rather it is a response to product demands from airline customers. It will be important that this is kept in mind by policy makers and the ACCC when dealing with quality regulation to ensure that the right data is collected and that proper analysis is undertaken.

Obviously, when airlines seek a lower level of service they expect to pay a price below that for a higher level of service. This is clearly an efficient and appropriate form of price discrimination. Increases in domestic competition have led to other developments in airport pricing behaviours, particularly following the entry of Impulse and Virgin Blue. Airports now compete for domestic bases and provide strong incentives for airlines to grow volume. Further, risk sharing arrangements

[18] ABC Radio National Breakfast, 30 May 2008.

have been entered into to provide a sound financial basis for future infrastructure and route developments. Care must be taken to ensure that the monitoring arrangements not only do not disclose commercially sensitive information agreed between parties but also that they do not inadvertently stifle the development of innovative commercial arrangements that have, and are likely to continue to, contribute to the development of competition, especially in domestic markets.

The number of airports subject to regulation was substantially reduced in 2002. Launceston was one of those removed and like many others such as Alice Springs, Townsville and Coolangatta have little capacity to exert market power over Qantas and Virgin Blue because of their size and the presence of competing airports. Canberra and Darwin were removed after the 2007 Productivity Commission review. It is interesting to note that the five airports that continue to be monitored are the five that have more than five million passengers per annum. This is the level which is currently being proposed in Europe to be covered by a regime of disclosure and dispute resolution which in many ways resembles the Australian monitoring and show cause arrangements supplemented by Part IIIA of the Trade Practices Act. The view that has been taken in Europe is that airports below this size in most cases are unlikely to be able to exert market power over airlines and the costs of regulation are likely to outweigh the benefits of intervention – precisely the same view that the Productivity Commission has now reached on two occasions.

Scope of services that should be monitored

Similarly, we do not believe that there is a case for the expansion of the scope of services being monitored. In particular, we are disappointed with the decision to extend monitoring to car park services – not only because of the decision *per se* but also the process and analysis that led to it is not consistent with good regulatory practice.

Car park services are provided in markets that are contestable. In addition to the four car park products we provide at Melbourne Airport, there are at least nine other car park providers servicing Melbourne Airport. The analysis that supports price monitoring of car park charges is particularly weak. International comparisons are virtually meaningless as they are highly sensitive to exchange rate assumptions and the funding and regulatory arrangements in the jurisdictions concerned. The government appears to have also placed great store in the fact the car park revenues grew much more quickly than passenger numbers during the period 2002-2007. This difference can be largely understood to be the interaction of a number of factors:

- Expansion of capacity (undercover bays in the multi-story car park increased at Melbourne Airport from 3,100 bays to 4,900 and other spaces from 5,000

to 11,400 during the period). Melbourne Airport has invested over $80 million in car park infrastructure since 1997/98, the vast majority of that in the period 2002-07 when the multi-story long term car park was built. In 2006/07 alone over $10 million of enhancements were undertaken in Melbourne Airport's Long Term Car Park facility. This major redevelopment added 900 new parking bays, new entry and exit points, as well as new bus shelters to meet the airport's new car park shuttle bus fleet.

- Improvements in quality of service in areas such as signage, payment methods, information provision and security and in relation to long term car park bus services have all lead to higher costs.

- General increases in costs of construction. Not only has the national CPI increased by around 14.5% over the period, non-residential building construction costs grew by 40% and non-building construction costs by 26%.

- The need to use some of the revenues derived from car parks to fund general improvements in airport road infrastructure.

Striking the correct balance

The Issues Paper observes there is still some debate as to whether the right balance has been struck between airports and airlines when they settle commercial arrangements for access to services, yet offers no evidence of this. What is certain is that where airlines have been aggrieved with the conduct of airports that they have refused to enter into agreements with airports. Further, airlines have always been vocal in the media and in extreme circumstances have taken resort in the provisions of Part IIIA of the Trade Practices Act and other areas of the law. This appears not to be the case at the present time.

If one reviews the recent public utterances from major Australian airline CEOs about the challenges facing the airline industry the issue of airport prices does not loom large in their grievances and concerns. Indeed BARA has publicly indicated on a number of occasions that it supports the approaches imbedded in the current airports regime[19]. Further, if such concerns regarding the behaviour of individual airports were to emerge, and they do from time to time, the appropriate way to deal with these in the first instance would be through the show cause arrangements available under the current policy.

Periodic reviews of policy outcomes by the Productivity Commission are a key element in ensuring independence, transparency, predictability and reliability. The next review is scheduled for 2012. There is no immediate need for any policy action

[19] BARA (2008)

in relation to the economic regulation of airports and more over, to do so in an *ad hoc* way would undermine the very features that have been identified as making it the most effective regulatory arrangement in Australia. More importantly, it would undermine confidence in the Government not only as far as airport investment was concerned but would bring into question the Government's *bona fides* with respect to the regulation of infrastructure as a whole.

3.4 Secondary airport infrastructure

The Issues Paper has rightly drawn attention to the market developments that are leading to increased utilisation of regional airports. Consistent with developments in the United States and Europe, driven largely but not exclusively by LCCs, there has been an increase in demand for services at regional airports such as Ballina and Proserpine as well as airports that may have the potential to compete with major capital city airports such as Avalon, Newcastle and Maroochydore. It is our strong view that these developments are good for regional communities and the travelling public and indeed for major Australia airports as they in many cases provide profitable opportunities for growth.

Many of the airports in question were the beneficiaries of upgrades funded under Airport Local Ownership Program in of the early 1990s. The passage of time, use and changing demands mean that many of these airports are in need of significant investment either to facilitate new services or maintain safety. Heightened levels of aviation security also require additional investment. The owners of many of the airports, predominantly local councils, lack the financial and management resources to plan and deliver these upgrades. Further, the highly competitive nature of the domestic market means that the charges that might need to be levied to sustain these investments may be too high to support the traffic they are designed to accommodate.

Whilst we generally prefer market based solutions to the provision of airport infrastructure, we do believe there is a case for some airports to receive financial support for such upgrades. Such support must be direct fiscal assistance and not via pricing of services provided to or by other sections of the aviation industry. Each case should be subjected to a rigorous and published assessment much in the way that the Government proposes funds will be distributed from the Building Australia Fund. Indeed, it would be appropriate for the Government to ask Infrastructure Australia to develop and administer such guidelines. Such guidelines should also apply to any grants made by state governments.

Further we have indicated elsewhere, we are very concerned that policies that are designed to assist regional aviation services are properly focused on regional airports, not the class of all small airports and in particular those in competition with

other airports or other transport modes. We have similar concerns in situations where regional airports are in competition with each other such as in northern Tasmania. In such cases any proposals for financial support should be assessed not only in the light of the airport concerned but should also with regard to available capacity at competing airports and the effect public investment would have on emerging inter-airport, inter-modal and airline competition. The Competitive Neutrality Complaints Office has the necessary expertise to undertake such an analysis and could provide public advice to the relevant decision maker.

3.5 General aviation airports

The underlying economics of the bulk of the general aviation sector are such that the sector cannot afford to meet the current incremental costs of providing the infrastructure they require. Hence, the general aviation community either operates from the same facilities they always have or has developed new operations (with relatively little infrastructure investment) at airports that possessed assets with surplus capacity for their operations.

The infrastructure that supports general aviation is relatively old and like that found at many smaller airports is degrading, in some cases quite rapidly. Again, the general aviation industry struggles to pay the charges that are necessary to support even the maintenance of the existing infrastructure. This situation is further exacerbated by the fact that a fair proportion of this degrading infrastructure occupies land that has increasingly higher and better uses not only in non-aeronautical property development but for the development of facilities to support increasing passenger, freight and "heavy end" general aviation operations.

These problems are evident across the airports sector – at major and regional airports leased from the Commonwealth, general aviation airports in capital cities leased from the Commonwealth, other major regional airports (such as Cairns) and a range of minor airports largely but not exclusively operated by local authorities. Like all other operators of airports leased from the Commonwealth we have made provision for general aviation operations at both Launceston and Melbourne Airports however the economic realities described above mean that without explicit support from government at some level, these facilities will not be developed and general aviation activity will be, at best, confined to those areas in which it already operates. We suspect that this applies to all but the most profitable areas of general aviation (corporate aviation, fly-in fly-out services associated with the mining sector) or those operated by governments (for example state emergency services and Coastwatch). If Australia is to revitalise its general aviation sector a planned, transparent, rigorous program of public investment will be required. Again, this must be by way of direct fiscal support and not via pricing of services provided to or by other sections of the aviation industry.

However, there is more to this issue than just money. General aviation operations represent a relatively inefficient use of many aeronautical assets – they require relatively greater areas of (albeit thinner) aprons than most Regular Public Transport (RPT) operations and given their speed and airborne performance significantly reduce runway and airspace efficiency when operating at airports with RPT operations. The latter is particularly the case where flight training and aero clubs are involved. It is important therefore that in planning the future of general aviation in Australia, especially in capital cities, that strong emphasis is placed on locating general aviation to the maximum extent possible at locations separate to RPT operations in order to ensure maximum efficiency of infrastructure at major airports. To do otherwise will mean less efficient operations (leading to costs associated with congestion and additional emissions) or that investment in new airfield capacity at major airports will be required well before they would otherwise with flow-on effects to airport charges.

Melbourne provides a useful case study of how this can be arranged effectively. There is very little activity at Melbourne Airport that can be classified as general aviation. Other than *ad hoc* visits by emergency services aircraft (in operational mode) and international charter and state aircraft, virtually all of the activity that might be classified as general aviation is associated with freight activities being co-ordinated by various operators who handle freight from domestic and international services and some maintenance at the south of the airfield. General aviation for the north of Melbourne is facilitated by Essendon Airport and the south by Moorabbin Airport. We strongly support the ongoing operations of both these airports. We do not believe that aviation activities at Essendon Airport are creating an unacceptable impact on surrounding areas (which probably experienced greater noise impacts when Essendon was Melbourne's major domestic and international airport) although we acknowledge that a time may come where for air space management reasons associated with further runway development at Melbourne Airport operations at Essendon may no longer be viable.

For the reasons set out above, even if substantial public funding was to be made available to relocate the activity at Essendon to Melbourne Airport, the vast bulk of that activity is not compatible with the efficient operation of a major international airport with the largest average aircraft size in Australia. We would therefore urge the Commonwealth, that as it addresses the critical issue of general aviation infrastructure funding that it also work with the states, airports and general aviation operators to identify where and how future general aviation capacity will be provided for both regional Australia and Australia's capital cities.

3.6 Air traffic management

Whilst responsibility for the provision of airport capacity rests with the airport operator, the management of safe and efficient aircraft operations and effective asset utilisation sits firmly with Airservices in conjunction with airlines. Inefficiencies in this regard will lead to increased emissions, lower utilisation of aircraft and the development of new airport infrastructure earlier than would otherwise be necessary.

There needs to be greater clarity provided to airports with regard the service performance standards being applied within Airservices from the long term operational planning perspective right down to how decision making happens on the day to cater for both normal and abnormal events. For example, decisions made on the basis of weather at Sydney could have a negative impact at Melbourne, but how are the interests of parties affected in Sydney balanced with those of parties in Melbourne and indeed elsewhere in the network? This becomes increasingly important in a world where reducing both aircraft noise and emissions may in fact be the trade off rather than the goal.

Technology to support aircraft operations has huge potential to minimise fuel burn, improve efficiency and reduce noise on broader communities but will focus noise and regular flight movements to specific areas. As such, implementation needs to be carried out in a controlled, measured and consultative way. We would expect that in implementing these technologies the Government will require Airservices to undertake the same level of public consultation as it would, for example, expect of an airport developing an MDP.

Industry consultation and leadership is critical. The government needs to play a key role through Airservices in the installation and take up of the technologies. The case of Required Navigation Procedures is a prime example of the risks in not doing so. The issue is not really regulatory impediments but rather lack of direction in the installation and take up and possibly a heavier focus on providing these facilities at Sydney than other major airports.

Airservices, with the support of the Government and the Department, needs to be taking the lead in terms of direction and implementation of airspace reform. The Australian Strategic Air Traffic Management Group was the key body in driving change and world class initiatives. Regrettably it seems to us that this body has effectively dissolved and its subgroups remain inactive other than the Capacity and Service Improvement Forum. This group and its subgroups should be revitalised to continue the excellent work that was progressing in a structured format.

An immediate area in which such a group would be of great use is in driving forward implementation. Australia should take advantage of the Ground Based Augmentation System which allows minimal equipment installation at an airport yet

provides precision approaches to all runw ays by extending the use of the system to all airports. Currently at Melbourne Airpor t for example, precision approaches only occur via the Instrument Landing System (ILS) equipment that needs to be installed for each individual runway.

4

Safety and Security

4.1 Aviation safety

Australia has an enviable aviation safety record. This is a direct result of the strong commitment of airports, airlines, Airservices, most general aviation operators and most aviation workers and their unions to place safety at the kernel of everything they do.

CASA's first priority must always be ensuring the safety of the travelling public and it must not be distracted by peripheral issues – such prioritisation and focus might assist to bring to a close to the regulatory review that has taken far too long to complete.

We believe that the basic institutional structures surrounding aviation safety are sound. We support the intention of the Rudd Government to re-instate a CASA Board however we note that the existence of a board in the past was not sufficient to prevent political interference in aviation safety regulation. The Government needs to provide CASA, either through legislation or practice, with operational independence similar to that provided to police forces around Australia. Whilst we acknowledge the complexities of CASA's role as both a law maker and a law enforcer, greater functional autonomy from Government would confer a greater objectivity to its operations.

The Issues Paper raises the issue of the safety of foreign aircraft operating in Australia – some carriers from our region have been denied access to European airspace because of safety concerns. Whilst we favour the liberalisation of international air services arrangements there can be no compromise on safety. Irrespective of what legal mechanism is adopted in agreements, Australia must reserve to itself the absolute right to prevent aircraft, and airlines, that do not meet the same standards that are required by Australia and other high-safety jurisdictions from operating in Australia.

Whilst not unique in the aviation sector, we are concerned about CASA's ability to recruit, develop and retain suitability qualified and experienced employees to undertake this function so it is not dependant on a concentrated and dwindling group of consultants.

Safety standards applying to major airports are often just as relevant to smaller airports as they affect aircraft safety and associated airfield operations. Differences may and do occur where there are international operations, but common sense needs to prevail, and usually does, depending on whether the operations are irregular and charter, or the airports is a designated alternate.

As mentioned in section 3.4 issues with safety arise where regional and secondary airports are very old with minimal ability to upgrade standards, such as runway end safety areas, without major cost to the industry. It is acknowledged that CASA is moving rapidly toward a regulatory framework which is risk based and we would suggest some of these issues may well serve to demonstrate how they manage the risks in order to avoid a more prescriptive infrastructure-based approach.

4.2 Aviation security

Since the events in the United States in September 2001, governments both in Australia and internationally have taken action in the area of aviation security without sufficient thought to the drivers for and implications of the measures being imposed. Many of these measures were reactionary and arguably political in nature and in most cases did not reflect the true nature of the threat posed. The sensitivity of matters surrounding national security means that governments are reluctant to be seen to be relaxing or redesigning security measures once they are in place. The resulting situation sees a number of existing measures being managed at significant cost which disrupt passenger processing and deliver few, if any, security benefits.

We are of the view that existing security measures should be reassessed to determine whether the rationale on which they were based continues to hold true and to evaluate whether the measure is delivering on its stated objective. As a positive step forward, we welcome the Aviation Security Screening Review being conducted by the Office of Transport Security. Indications are that the focus of the Review is appropriate and includes areas such as: the clarification of the purpose of screening, national consistency, technology, review of the prohibited items list, existing screening point design and a review of human factors. We look forward to the findings of that review stream lining passenger processing whilst maintaining, or where possible continuing to enhance, the security of air travel.

Removing those security measures that are demonstrated to be ineffectual or inconsistent with the purpose of screening will play an important role in streamlining security processing at airports and will free up valuable security and border agency resources for more constructive work. We also welcome the recent establishment of the Security Screening External Advisory Group and would suggest that such a body would be well charged with the ongoing review of new and existing security measures in order to evaluate their effectiveness and currency on a regular basis. The establishment of this Advisory Group and the approach adopted by the Office of Transport Security in dealing with the aviation sector in recent years demonstrates their willingness to engage with the private sector in a meaningful way and to the benefit of national security outcomes.

Further efficiencies stand to be gained through more flexible allocation of border agency staff and the AFP in particular. Proactive policing at screening points for example has the potential to improve security outcomes and would more evenly distribute the potential for intervention along the continuum of the passenger

journey. Special arrangements for particular groups of passengers to travel through passenger screening more swiftly represent yet another opportunity to improve security outcomes within existing resources. The Security Screening Review would seem a process well suited to consider the basis on which such a system could securely and reliable be operated. We would welcome the opportunity to work with the AFP and other government agencies to develop strategies designed to maximise security outcomes based on the existing level of resource investment.

The trial and development of new technologies to promote more reliable and less invasive security screening are an essential part of any national security strategy. Given the vast array of technological products being trialled and produced both in Australia and internationally, it is essential that Government take a leadership role in the trial and accreditation of acceptable solutions in a timely fashion. Absent such a coordinating influence, industry is left to pursue solutions that may create problems of integration further down the track. We are hopeful that the Technical and Research Task Group under the direction of the Aviation Security Advisory Forum, if provided with the appropriate level of support, will provide such leadership.

The issue of facilitating the transportation of liquids, aerosols and gels in quantities of greater that 100mls in hand luggage remains of particular concern to Melbourne Airport and we would encourage the Government to pursue any technological measures that may result in greater international harmonisation. In a more general sense, harmonisation of Australian security standards and requirements with international regimes is likely to improve the level of community awareness of those measures and lead to a reduction in delays caused by confusion or a lack of preparedness on the part of travellers. We would support any moves toward greater harmonisation of aviation security measures.

Whilst we appreciate the confidential nature of government security intelligence a greater openness in relation to the nature and severity of threats prevailing in the aviation sector may encourage better community understanding and compliance and improve the capacity of the private sector to assist government security agencies in achieving their national security goals. For airports in particular, improved intelligence sharing would be of invaluable benefit in the areas of infrastructure development and operational planning. We understand that this may require security vetting of those non-government staff who may be privy to sensitive information and would happily work with Government to manage any such process.

We support the move away from the categorisation approach to security which previously applied, to a more risk based and outcomes focussed approach. We would however urge Government and its agencies to introduce a greater transparency to the process so that interested parties have an opportunity to constructively contribute to its application.

Open source data continues to suggest that aviation security should remain a focal point for government. Whilst a number of current measures have unquestionably

served to harden airports in particular, and the aviation sector in general, as targets of terrorist and criminal activity, in order for these security measures to realise their full effect over time, it is essential that they are targeted, demonstrably effective and resourced to an adequate level.

It is acknowledged that there are many difficulties in applying a totally risk based approach to individual airports, especially given that all would be the subject of limited direct intelligence assessments. Establishing rules for major capital city airports as a group is a sensible approach for the purpose of security standards as it generally embodies the level of risk associated with these airports. However it is important that specific attention must be given to those secondary airports serving capital cities (such as Avalon, the Gold Coast and Maroochydore) where there is potential for aircraft hijacked to be used against CBD locations. Individual Transport Security Programs should identify these risks and deal with mitigation measures and airport operators need to be held accountable for those measures.

Similarly it is sensible for some measures, such as passenger screening, to be determined on the basis of the type of aircraft operations at the airport concerned. Inconsistencies clearly exist between jet and propeller aircraft and whether aircraft are formerly operating RPT or charter services in those circumstances where the two types of operations are in competition. It is our view that regional airports handling aircraft of a particular seat capacity should be required to have screening measures irrespective of whether the aircraft are propeller or jet operated and the cost of these measures should be borne by the airports concerned.

The bringing together of the various policing activities of airports and the direct public funding of the CTFR activities of the AFP whilst a successful and overdue initiative still struggles to maintain targeted staffing levels and as such continues to fall short of reaching its operational potential.

In absence of any demonstrable benefit in altering the existing institutional arrangements governing aviation security, we would not support any proposed change. In particular, we are strongly opposed to the extension of network pricing to the provision of aviation security services. Whilst there remains room for improvement in the provision of efficient and effective security, presently, accountabilities are clear, with quality services being delivered at a reasonable cost at major airports. Any alterations would likely be complex, unlikely to yield any substantial gains, and unfairly tax users of a service in one location for its provision in another.

There remains a significant divergence in expectations of security measures as they relate to different activities occurring at an airport. Whilst much is made of security in the passenger environment, areas such as cargo screening, in flight passenger security and the issues associated with last ports of call are all areas requiring greater focus and consideration.

4.3 Border protection

Through their payment of the passenger movement charge, travellers are entitled to expect a particular level of service when arriving in Australia. Given the number of government agencies and private sector partners who operate in the arrivals environment, there are great benefits to working cooperatively in developing industry and service level key performance indicators – this is no different to what the Government expects of aeronautical services provided by airports. Melbourne Airport would welcome the opportunity to work with border protection agencies to establish these benchmarks. Such an initiative would clearly articulate the commitment of government and industry to provide flexible and responsive services to arriving international passengers and establish a framework through which tangible outcomes can be delivered. It would also provide accountability and transparency for the spending of large amounts of public money.

As a key private sector partner at the border, Melbourne Airport understands that it has a role to play in achieving positive outcomes. To that end, Melbourne Airport will be undertaking significant development works in the coming years to improve passenger experience and to ensure that the first impression that international tourists have of Australia and Melbourne in particular, is welcoming and professional – we see this as part of building our and Victoria's competitive advantage. We are upgrading our baggage system to minimise disruptions during peak times and to ensure that passengers receive their luggage in a timely fashion post disembarkation. We will also be expanding the number of counters available for passenger processing in the international arrivals hall and extending the size of the hall to create more space for improved passenger flow during peak arrival times.

If appropriately resourced by government agencies such as Customs and AQIS, development initiatives undertaken by airports have the capacity to dramatically improve passenger facilitation times and increase throughput whilst maintaining a high level of security and an appropriate level of intervention on targeted routes.

Government agency officials located on airport have in recent years demonstrated an increasing willingness to be flexible and responsive in dealing with increasing passenger numbers and peak arrival times. We do however remain concerned that adequate resources are not being applied at the right times. We have always supported and will continue to support the intervention rates determined by Government. However it is imperative that intervention levels be established with a greater focus on practical probability as opposed to theoretical possibility and most importantly be resourced appropriately.

By way of example, the present AQIS intervention rate is set at 81%, however the requirement to screen 100% of passengers arriving from countries of increased quarantine risk means that in practice the number of interventions, expressed as a percentage, is significantly higher than the 81% target.

At Melbourne Airport, the current AQIS intervention process is demonstrably the least efficient component of passenger processing and also attracts the highest number of passenger complaints. Intervention rates already consume considerable resources and invariably extend passenger and freight processing times. Target rates that do not accurately reflect quarantine and biosecurity risks serve to exacerbate an already under-resourced process and further delay the processing of passengers and cargo. AQIS practices which result in stated targets being routinely exceeded have a similar affect.

The principle of risk assessment needs to be rigorously applied the activities of the border agencies both at existing and future international airports. Whilst we believe there is ample funding available to provide additional services at new points at the new, higher, level of the passenger movement charge it is important from a passenger facilitation and corporate culture perspective that the level of intervention be appropriate to the risks presented at each location.

We would hope that the Government would commit over time to ensuring that the level of intervention at each and every Australian airport is appropriate and then setting a passenger movement charge to recover those costs (plus an identified overhead) in the same way that airports recover their security costs. This would make a small but meaningful contribution to international carriers who are bearing the costs of Airservices network pricing of ARFF services and ever rising fuel costs but receiving no additional services in return.

5

Environment

We realise that the growth of our airports, which will come hand in hand with that of our current and prospective business partners, will place demands on the environment and the local community.

We have a strong history as an Australian leader in airport environmental management. We focus on the most responsible ways to manage our environmental footprint and we will continue to work hard to maintain the balance between the environment and growth of our airports. We do this because of our commitment to the long-term sustainable future of the environment in and around our airport and to ensure our airports remain a key part of the working economic fabric of the communities they serve.

Whilst in some cases it will be difficult to halt the growth of these impacts, we are confident that through a combination of airports' own actions, improvements in technology and airports working co-operatively with their business partners and other stakeholders the consequences of aviation growth will have only minimal impacts on the community and the environment.

This can only be achieved with the strong support of local communities. To gain that support, airports need to be sensitive to the impacts that airport operations have on others and have credible plans to mitigate this wherever possible – in other words, airport growth must be sustainable.

We are committed to controlling the adverse effects of our airports operations and minimising its impact on the environment and local communities. We will seek to continually improve our environmental performance recognising that in doing so we will maximise the positive benefits of continued growth of the business and airport operations.

Sustainability is as much about attitudes and processes as it is about targets and actions, no matter how important those are. This is why we were the first Australian airport to implement an ISO 14001 compliant Environmental Management System.

Australian airports have good environmental records in terms of site management – this indicates that the policies supporting and surrounding Airport Environment Strategies have been effective. Other than some local specific project impacts, the main issues of environmental concern are noise, which we have discussed in section 3.2 and the impact of energy related emissions on climate.

5.1 Aviation Emissions and climate change

Aviation, like all modes of transport, consumes energy in a number of ways - the burning of fossil fuel in flight is the industry's largest source of demand for energy. The impacts of the emission of greenhouse gases created by the burning of fossils fuels are the single greatest sustainability challenge facing the aviation industry globally. According to the United Nations Framework Convention on Climate Change aviation makes up about 2% of global carbon dioxide (CO_2) emissions, it is widely accepted that the bulk of these emissions relate to the movement of aircraft.

Energy (including fuel) is a significant cost to APAC and our business partners, especially airlines. There is a strong commercial incentive to drive energy usage down, especially given the current level of fuel prices. Not only does this reduce cost and enhance profits, but also companies that are lazy energy users will ultimately find themselves at a commercial disadvantage with their more efficient competitors. This is why aircraft manufacturers are working so hard to reduce fuel consumption and why airlines are prepared to re-invest in more fuel efficient aircraft at a more rapid rate than they may have in the past – most airline fleets are getting younger not older. If airports can reduce their own costs, they can offer better, cheaper services to their customers which is necessary for them to prosper in an ever more competitive and challenging environment. In aviation, there is a natural imperative for everyone to reduce the amount of energy or fuel used in moving each passenger or each tonne of freight.

Carbon offset programmes, whilst admirable and critical in raising community awareness are unlikely, in and of themselves, to deliver meaningful reductions in emissions as they will not influence the development of technologies that will drive emissions reductions. Market based solutions (including emissions trading) lie at the heart of the ensuring that emissions are ultimately reduced and the rights to create emissions are distributed in a way that maximises community well being. If aviation emissions are not to be included in Australia's emissions trading system, initially or at all, then any other policy mechanisms (such as Airline Passenger Duty and the proposed aviation duty in the United Kingdom) need to be directed at those most able to take steps to reduce those emissions, namely the airlines. We would note that recent debate in Australia has suggested that ground based passenger transport emissions should be excluded from calculation because the demand for petrol by households is relatively elastic, especially at the current price level. If this argument is accepted, given the current price level of aviation fuel and the existing incentives the aviation industry has to reduce its fuel use, and hence emissions, then one could equally argue the exclusion of aviation emissions.

The treatment of international aviation (and indeed international shipping) is a particularly difficult policy issue. In the design of any system the jurisdiction in which the emission should be addressed is problematic both in term of the location

of the emission and the nationality of the emitter. Care needs to be taken to ensure that in seeking to address emissions that Australian entities (particularly airlines) are not disadvantaged when operating in markets where competitors are not subject to similar regimes. There is a risk that with respect to international markets, an inappropriately designed system could penalise Australian firms without leading to any reduction in global emissions.

The vast majority of the emissions associated with airports come from aircraft and vehicles operated by others. Over time, these should reduce on a per movement basis and we will develop strategies along with others to ensure more efficient operational procedures. We stand ready to support industry and government initiatives in this regard and would draw the Government's attention to the excellent work done by the *Sustainable Aviation* group in the United Kingdom[20].

By reducing their own energy consumption airports can make a contribution, albeit small, to reducing the level greenhouse emissions. Energy is consumed in the construction and operation of airport buildings and other infrastructure (e.g. operation of airfield lighting). Whilst these historically have been provided by electricity resulting from the burning of fossil fuels, increasingly this energy is being provided from a range of sources, including renewables the onsite generation of which we are exploring. Melbourne Airport has an aspirational target of reducing our own emissions by 25% by 2013. To this end, its Preliminary Draft Environment Strategy commits to ensuring from the beginning of 2009, all new buildings at the airport achieve a Green Star five star Rating (including a 4.5 star Australian Building Greenhouse Rating) and from 2013, where a rating tool exists, all building refurbishments achieve a four star Green Star rating.

Airport vehicles and the vehicles used by passengers and staff also contribute significantly to the energy needs of aviation and again increasingly are being provided, or at least have the potential to be provided, from a range of energy sources. In addition to looking at alternative fuels and operating procedures to reduce emissions from airside vehicles, we are also developing a Green Travel Plan to reduce motor vehicles use by staff travelling to and from work. We will support and facilitate rail and other public transport initiatives when they are proven to be economically viable.

20 For further information see http://www.sustainableaviation.co.uk/

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