



25 June 2008

The Honourable Anthony Albanese MP  
Minister for Infrastructure, Transport,  
Regional Development and Local Government  
GPO Box 594  
Canberra ACT 2601

Dear Minister Albanese

**National Aviation Policy Statement**

Thank you for inviting public contributions toward the review that you are conducting of the aviation industry in Australia. We believe that this review is an important step in developing a unified plan for the future of airline travel in our country and would like to offer the following thoughts as you advance the development of the National Aviation Policy Statement. We have focused our comments on the benefits of competition and national oversight, the impact that the industry has on local communities and the environment, and the climate required to continue attracting the investment necessary to maintain Australia’s world class aviation sector.

**IFM Overview**

Industry Funds Management Pty Ltd (“IFM”) is an investment management company specialising in the management of private investment products across infrastructure, private equity and debt investments, as well as listed equity portfolios. Dating back to 1995, IFM is a recognised leader in the alternative investments field and currently manages in excess of \$17 billion in its related products and services.

IFM is wholly owned by Industry Super Holdings Pty Ltd (“ISH”), the holding company for the Members Equity Bank Group of companies, which is 100% owned by thirty-seven major Australian industry superannuation funds who are also our major clients. Superannuation fund owners of ISH are estimated to have in excess of 5 million members Australia wide, with an estimated \$150 billion in superannuation assets under management. As such, the success of IFM’s investments impacts a large proportion of Australians. In particular, many of the Australians that benefit from our investments are working families as our owners are not for profit, industry funds such as Construction & Building Industry Super (Cbus), the health and community services industry super fund (HESTA) and AustralianSuper, the largest of the industry superannuation funds, whose members represent a cross section of Australian workers.

**The Benefits of Competition**

The global aviation industry has changed considerably since governments began to privatise airlines and airports. The competitive environment created by privatisation has brought new

entrants into the airline business catering for a wide range of travellers, from the budget conscious to those seeking full service amenities. Not all airlines have survived in the competitive environment, but competition has improved the level of service and lowered the cost of air travel leading to a large increase in the number of passengers. Privatisation of airports and airlines has forced a codependent business arrangement where the parties must cooperate to bring about improvements in airport facilities to effectively handle the increased volume of travellers. A delicate balance of power exists between the airlines and the airports that allows the parties to strike effective commercial arrangements. In some locations such as Sydney, the balance of power currently benefits the airport. This will change if a second airport is constructed or if regional airports continue to develop to serve the greater Sydney catchment area. Outside the major capital cities, the balance greatly favours the airlines despite the lack of competition from multiple airports as airlines require strong enticements to enter such markets.

It is a common misperception that all airports enjoy monopoly positions and have a competitive advantage over airlines. This is far from the case and the airports at Darwin and Alice Springs provide good examples. Both airports are totally dependent on airlines choosing to fly there. They will do so only if the routes are profitable and incentives and promotional assistance may well help in this regard. The recent focus by JetStar on Darwin is a practical example. Prior to the start up of Tiger Airways in Australia neither Virgin Blue nor the Qantas Group planned to increase their services into this airport. The introduction of competition changed this and both Tiger and JetStar now consider Darwin as a possible hub to consolidate flights in and out of Asia and Australia. This interest requires that the airport undertake significant investment to expand. However there is no guarantee that the flights signalled by the airlines will eventuate and even if they do, it is uncertain whether the airlines will continue to fly such routes for the 10 to 15 years required for the airport to recover its significant up front capital commitment.

The benefits derived from competition have been enabled by government policies that have simultaneously provided effective oversight of the aviation industry while stimulating the private investment required to enhance service offerings and improve and maintain facilities. Australian governments have done a tremendous job of fostering such a climate, allowing airlines to tap listed markets for capital and airports to receive significant investment from private sources. Without access to the capital that has been invested in the aviation sector, we would not have the types of services and the quality of facilities that travellers have become accustomed to. Maintaining these standards will require continuous investment which can be provided only under a planning regime where the aims of government are stable and well understood by industry participants and investors, much as they have been in recent times.

In addition, Australian and international travellers benefit from increased competition in the airline industry – this has been particularly evident with the introduction of “low-cost” airlines over the past few years. Continuing to attract international airlines and foreign travellers is essential to Australia’s tourism industry, particularly now that the high Australian dollar has reduced Australia’s attractiveness as a vacation destination. Initiatives that further liberalise international air services and increase access to multiple Australian destinations would help not only to attract more visitors to Australia, but could reduce the congestion experienced in Sydney. In the protected environment that now exists on the Pacific route to the United States, the Qantas Group’s focus is on its Sydney hub to the detriment of other East Coast gateways. For example, in booking flights between Melbourne and North America, Melbourne originating passengers are often given seat priority through Sydney. Consequently, it is estimated that over 70,000 of all Melbourne originating passengers to the United States are channelled through Sydney Airport each year. Limiting direct access from other East Coast gateways undermines the ability for Australia’s other regions to attract business, trade and tourism and poses a significant inconvenience for consumers.

## **The Benefits of National Oversight**

Competition in critically important sectors such as aviation however, cannot take place in a vacuum, but must be conducted in the context of supportive policies at all levels of government. To ensure a consistent approach in this sector, oversight responsibility must rest with the Federal government. Airlines operating in Australia utilise airports in multiple states and it is clear that the Federal government is the only entity with visibility and authority across the states to make consistent decisions throughout the network of Australian airports. We believe that the current regulatory environment strikes an appropriate balance which allows innovation, growth and investment, leading to Australian airports of world-class standard. Fragmentation of decision making such as is exhibited in the rail industry would only degrade our aviation sector and can be avoided by continued Federal oversight.

## **Serving Local Communities**

In the context of providing a consistent national approach to aviation, it is necessary to consider the impact that airports have on the communities in which they are located. Appropriate retail and commercial development at Australian airports both enhances local economies and is a key factor in ensuring commercially robust airport enterprises. The current Federal process for development approval (eg. the EIS process) is considered by IFM as an airport owner as stringent but appropriate for all stakeholders. Nevertheless, to achieve the best outcome, development of airport land, as well as airport premises, should be planned in consultation with local governments and municipalities, and must consider responsibilities owed to the surrounding communities. Development of airports takes years and the planning process can accommodate input from various constituents.

## **Investing Australian Superannuation Savings**

IFM identified airports as potentially attractive investments for our investors many years ago. We seek investments exhibiting traits that appeal to superannuation funds - companies or projects that require significant amounts of capital, have long investment horizons, low levels of volatility, and ideally, grow at least in proportion to overall GDP growth in Australia. IFM made its first airport investment in 1997, and in all, has invested in eight Australian airports. IFM is a majority shareholder in NT Airports (Darwin, Alice Springs and Tennant Creek) and a minority shareholder in the airports of Melbourne, Brisbane, Adelaide, Perth and Launceston. IFM has increased its stakes in these airports each time an opportunity has presented itself, and as a long-term investor, IFM has never sold an interest in an Australian airport. IFM plans to continue seeking additional airport investment opportunities, such as those recently announced by the Queensland Government.

IFM has been able to make a strong commitment to the Australian aviation sector because of the benefits brought about by deregulation and competition. The privatisation of the airline and airport industries and the stable regulatory environment maintained by the Federal government have created appropriate investment opportunities for superannuation funds. IFM's investors not only enjoy the stable financial returns provided by domestic airport investments, but also the knowledge that their retirement accounts are providing valuable infrastructure for the continued development of our country. A commitment to future investment in the sector requires policies similar to the light-handed regulation that has governed the aviation industry during the past decade. This allows commercial contracts to be negotiated on sound business terms between airports and airlines. The reintroduction of price monitoring by the ACCC would introduce additional cost and uncertainty for airport owners and quite possibly could significantly increase the risk for major capital airport expansions. There is already mounting pressure to shift investment dollars toward developing regions of the world which are expected to exhibit greater

growth rates in the years ahead. IFM is a strong proponent of ensuring that an investment environment is maintained which ensures that a large proportion of Australians' retirement savings remains in Australia.

Although the aviation sector has thrived since deregulation, difficult times are foreseen in the near future due to escalating fuel prices and a potential deceleration in economic activity. The present fuel crisis has already led to Virgin Blue's announced cancellation of the Melbourne - Darwin route and continuing high fuel prices may well lead to additional route cancellations. Business cycles are inevitable, and as previously indicated, it is clear that the return to the airports' shareholders, mainly superannuation funds, is entirely in the hands of the airlines. This highlights the need for airports to continue operating under the "dual till" approach which provides multiple sources of income. Aeronautical activity provides limited revenue for airports as airline charges can be largely driven by payments directed by government. For example, the charges on a per passenger basis associated with a typical international flight departing from Darwin are approximately \$78 per passenger, of which only approximately \$13 is paid to the airport operator for the provision of landing and terminal services. Some \$47 is paid to the Federal Government for immigration and customs services and the remaining \$18 is for the provision by the airport of security measures mandated by the Federal Government.

### **Environmental Considerations**

Periods of reduced economic activity should not interfere with the momentum that has gathered behind reducing carbon emissions. Australia, as a recent signatory of the Kyoto Protocol, should take a lead role in searching for ways to reduce carbon emissions. IFM, along with more than 320 institutions around the world, is a signatory to the United Nations Principles for Responsible Investment and we believe that our investment decisions should consider the impact of carbon and noise emissions and other environmental pollutants. While aircraft provide an easy target, potential reductions in their emissions would be minor compared to improvements that can be made in other industries such as energy. We also note that the aviation sector should be segmented when assessing carbon footprints, distinguishing airports from airlines as only the airlines control decisions regarding how they maintain and operate their aircraft.

We hope that these comments are useful as you advance the development of the National Aviation Policy Statement. We are proud of what Australia has accomplished in the aviation sector and look ahead to continued improvement. If I can provide any further assistance or clarity regarding these comments, please do not hesitate to contact me on 03 9657 4340.

Sincerely,



**DAMIAN MOLONEY**

Chief Executive

Industry Funds Management Pty Ltd