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21 April 2008

Department of Infrastructure, Transport, Regional Development and Local
Government
GPO Box 594
CANBERRA ACT 2601

Dear Sir/Madam,

SUBMISSION TO NATIONAL AVIATION POLICY STATEMENT

Recommendations

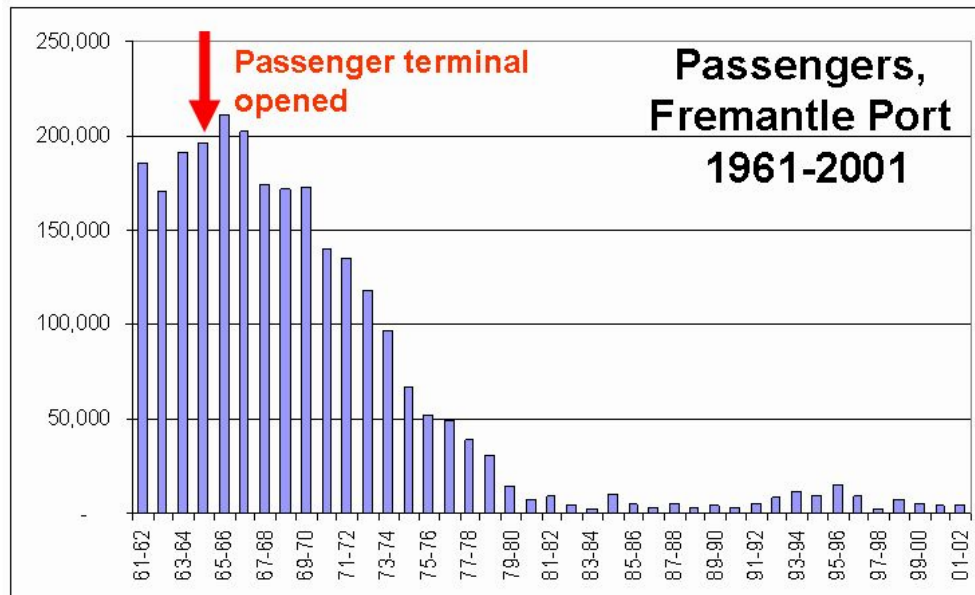
1. The Department of Infrastructure, Transport, Regional Development and Local Government should establish a unit within the department to analyse the likely level of future oil prices, as they affect all areas of the department's operations (eg regional development), not just aviation.
2. The Federal Government should establish a list of regional air routes (eg Alice Springs to Warburton) that should be subsidised to ensure that they can continue to operate, no matter the level of world oil and jet fuel prices.
3. The Federal Government should buy-back the major capital city airports to ensure proper planning of their operations in light of substantially higher world oil prices.
4. The Department of Infrastructure, Transport, Regional Development and Local Government should ensure all major city and regional airports are integrated with the local rail and public transport systems.

In this submission the **Sustainable Transport Coalition of WA** would like to address what we see as the key weakness of the National Aviation Policy issue paper- it proposes that the future air travel patterns in Australia will be just an extension of the past. In other words, the rapid (and unexpected) growth in Australia's aviation sector in the past 5-8 years will continue at the same rate into the future.

The NAP paper's statement "... an average annual growth rate of 5.8 per cent. Aviation has clearly been a high growth industry." overlooks the fact that oil prices have risen in the same period from US\$10 per barrel (for West Texas Intermediate crude) in 1999 to over US\$115 per barrel in 2008- an annual growth rate of more than 10%. In fact, the Australian Government looks as if it will replicate the debacle we had here in WA when many millions of dollars of public funds were spent in 1966 in

building a new passenger terminal at the port of Fremantle, just as cheaper jet travel caused a dramatic drop in passenger numbers using ships for their interstate and international travel (as shown in Figure 1 below).

Figure 1- Usage of the Fremantle Port passenger terminal, 1961-2001



Additionally, the NAP issue paper says “Patterns of air transport are changing, with the emergence of low cost carriers, larger aircraft, regional jets and a range of new point to point services driving further growth in the industry.” This issue paper was released in a week where three US airlines have gone into bankruptcy¹, major US carriers Delta and Northwest are considering a merger², and Air France is taking over Alitalia.³ ALL of these events are due to the high, and rising, price of jet fuel.

A key factor in the issue paper’s focus on handling the projected more growth seems to be a faulty reliance of government on economic advisers such as ABARE. Figure 2 below shows the estimates made by ABARE about the future price of oil. It clearly shows that this government source has no idea of where the future price of oil is heading, and an over-reliance of ‘market forces’ and new technology to bring about lower oil prices. For the past 5 years its predictions have been dramatically wrong.

This lack of a focus on jet fuel prices and their impact on air travel seems to be an unusual oversight given the wide publicity given in 2007 to the outcomes of the Senate Inquiry into *Australia’s future oil supply and alternative transport fuels*.

On the other hand, the STC has studied this issue for the past five years and made similar future price predictions, including in briefings and submissions to QANTAS, the WA Parliament and Senate Inquiries etc⁴. The STC’s predictions have been by far the most accurate of any organisation in Australia over the past 3 years because we

¹ <http://edition.cnn.com/2008/TRAVEL/04/04/airlines.bankruptcy/index.html>, accessed 11 April 2008.

² http://www.ft.com/cms/s/0/dbeddfb8-f506-11dc-a21b-000077b07658.html?nclick_check=1, accessed 11 April 2008.

³ <http://news.bbc.co.uk/2/hi/business/7163153.stm>, accessed 11 April 2008.

⁴ See for example the Senate Inquiry into *Australia’s future oil supply and alternative transport fuels* at http://www.aph.gov.au/Senate/committee/rrat_ctte/oil_supply/index.htm.

base them on data that indicates that the world production of crude oil reached a maximum output in May 2005. Figures 3 graphs the rise, plateau and decline in world crude oil output over the past 6 years using data from the Energy Information Agency (EIA) at the US Department of Energy (see http://tonto.eia.doe.gov/merquery/mer_data.asp?table=T11.01b).

Our predictions for the rest of 2008 are that WTI is likely to reach at least a cost of US\$150-180 per barrel.

Figure 2- ABARE incorrect projections of WTI oil price, 2003-08

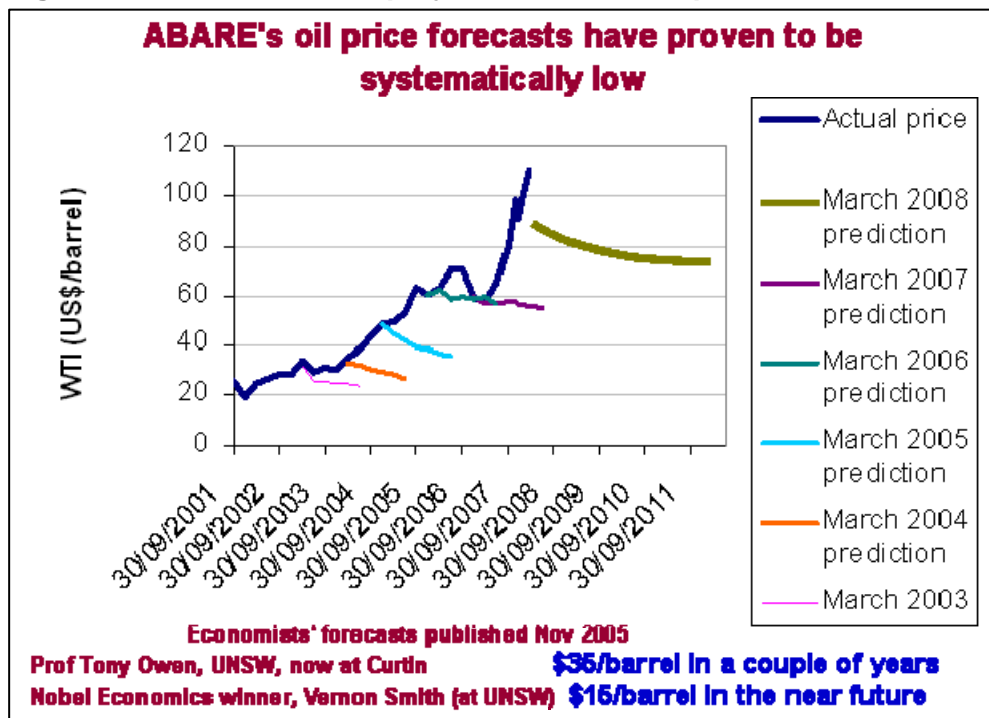
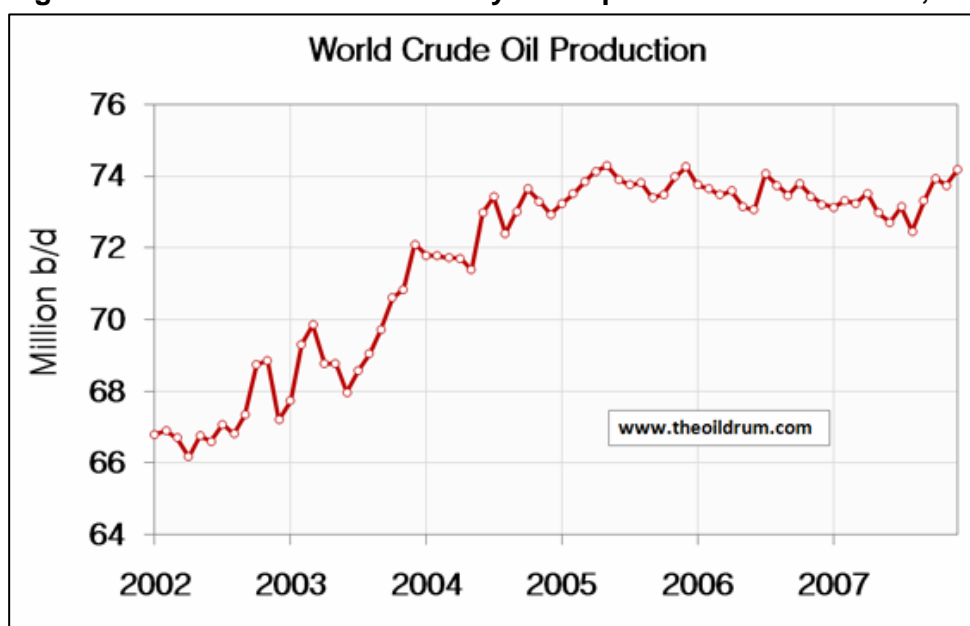


Figure 3- 'Plateau or Peak Oil'- daily world production of crude oil, 2002-08



This issue is not just an academic one. The Brisbane Airport Corporation based its modeling to justify a new parallel runway on these false predictions of lower future fuel prices. The BAC Environmental Impact Statement said:

The US Energy Information Administration (EIA) Annual Energy Outlook (AEO) 2006 reference case includes much higher world oil prices than were projected in AEO2005. In the AEO2006 reference case, world crude oil prices, ... are projected to continue to increase from \$40.49 per barrel (2004 dollars) in 2004 through to 2006, then decline to \$46.90 per barrel in 2014 (2004 dollars) as new supplies enter the market. Prices then rise slowly to \$54.08 per barrel in 2025 and to \$56.97 per barrel in 2030.⁵

The BAC EIS which was approved by the Australian Government in September 2007 (when oil prices were about to reach US\$100 per barrel) continues "Oil prices have now reached levels above US\$70 per barrel. ... It has been assumed that fuel prices are **unlikely to stabilise at their recent high levels** (emphasis added)."

In light of WTI oil futures prices already above US\$115 per barrel (17 April 2008), it is obvious that the BAC, and its economic forecasters, have no idea of what the future will bring in terms of oil and jet fuel prices, and the subsequent impact on air traffic at Brisbane Airport, or the need for a new runway. In its Supplementary Report answering responses to the EIS, the BAC falls back on shifting the blame to others for these failures:

In responding to the issues raised in the submissions, BAC is not in a position to speculate on the timing of Peak Oil and associated implications on the global aviation industry. However, it should be noted that general estimates and projections of fuel costs stated in the Draft EIS/MDP (refer Section 2.7.4) would appear to be consistent with those stated by the Senate Inquiry⁶ in its Final Report [...that the price of crude oil will ease to about US\$47 per barrel by 2012].⁷

While the media focus and reporting on oil prices has been on the price of WTI futures, the real cost to airlines of jet fuel is substantially higher. For example, while the price of WTI was US\$110 per barrel, airlines in the US were paying US\$136 per barrel for jet fuel. Fuel costs are now the major cost for all airlines.⁸ In the US, there is evidence that some airlines under financial pressure are making their pilots fly with less fuel reserves, and hence making the US air system less safe.⁹ Pilot comments from this report include:

* It is obvious to me that in order to save the high fuel price at MROC we were dispatched with a minimum fuel load. Dispatchers often cut it so close to save a couple hundred dollars and risk a diversion with the expenses of more fuel, missed connections, out of base customs, and longer crew days. ... I am all for saving money but I do not believe we should make the margins so narrow.

* Our flight plan indicated marginally acceptable fuel due to no alternate and [clear weather] in NY area. I requested extra 1700 lbs based on recent increasing occurrences of additional NY approach vectoring. ... [Still,] we declared

⁵ <http://www.newparallelrunway.com.au/files/pdf/A2.pdf>, page A2-68 accessed 17 April 2008.

⁶ A full list of the public submissions made to the Senate Inquiry into *Australia's Future Oil Supply and Alternative Transport Fuels* can be found at

⁷ http://www.aph.gov.au/Senate/committee/rrat_ctte/oil_supply/submissions/sublist.htm.

⁸ http://www.newparallelrunway.com.au/files/pdf/Vol_A_Responses.pdf, page 29, accessed 17 April 2008.

⁹ For example, see <http://www.nytimes.com/aponline/business/AP-Earns-Continental.html>, *Soaring Fuel Costs Push Continental to Loss*, accessed 18 April 2008.

⁹ <http://www.msnbc.msn.com/id/24034468>, *Pilots claim airliners forced to fly with low fuel*, accessed 17 April 2008.

'minimum fuel' and touched down with 8400 lbs (7600 lbs 'in' at gate). Lately we have been running with lower and lower planned fuel, especially in [OK visibility]. I understand the importance of this in terms of fuel conservation, however, pop-up [OK visibility] holding results in fewer options for the flight crews, which ultimately will lead to more diversions.

It is likely that such operational pressures are also being placed on pilots employed by Australian airlines, particularly the smaller regional ones.

Recommendation

1. The Department of Infrastructure, Transport, Regional Development and Local Government should establish a unit within the department to analyse the likely level of future oil prices, as they affect all areas of the department's operations (eg regional development), not just aviation.

The section of the Australian public that has already felt the impact of rising oil prices on their air transport operations are those who live in regional and remote towns. The Australian, and some State governments, recently increased the budget support for the Royal Flying Doctor Services (RFDS) around Australia for the very reason of the negative impact of higher fuel prices on the RFDS's operations.¹⁰ Some government agencies already seem to have considered this issue and developed recommendations for how it should be addressed¹¹, particularly for Indigenous communities who rely on air services for urgent medical, food and other supply purposes. For example, Roberts (2006) reported that during 2006, the Aboriginal Air Services (AAS) in Alice Springs closed its doors due to high aviation fuel prices. The AAS had provided essential transport services (eg medical transfer flights) to over 60 remote communities for more than 20 years.¹² These services have now been transferred to much longer road trips. In the US, regional airlines have been hit hardest by higher fuel prices and many of their routes have been cancelled.¹³

Recommendation

2. The Federal Government should establish a list of essential regional air routes (eg Alice Springs to Warburton) that should be subsidised to ensure that they can continue to operate, no matter the level of future world oil and jet fuel prices.

So what are likely higher fuel prices likely to mean for Australian air travel? In the view of the STC it will, in conjunction with a US-led economic recession, mean LESS air travel is undertaken in Australia, not more- especially on low-cost tourist services. A decline in tourism to Australian destinations (both international and interstate) has

¹⁰ <http://statements.cabinet.qld.gov.au/MMS/StatementDisplaySingle.aspx?id=52244>, accessed 11 April 2008.

¹¹ http://www.nntt.gov.au/research/files/rising_worldoil_prices.pdf, accessed 11 April 2008.

¹² Roberts, J. (2006) "Aboriginal Air Service on Verge of Closing", The Australian, 4 September, <http://www.news.com.au/story/0,10117,20420503-17001,00.html>, accessed 10 October 2006.

¹³ <http://www.nytimes.com/2008/04/10/business/10air.html>, *Fuel Costs Just Part of Airlines' List of Woes*, accessed 18 April 2008.

been reported since 2006¹⁴ and higher fuel prices will only exacerbate this trend. Falling tourist numbers, and flights generally, will make the declining infrastructure at Australia's major airports harder to update as airport operations generate smaller income inflows. This has already been a particular issue at Perth where the privatised operators have concentrated on making quick profits from their real estate assets rather than maintaining an efficient and more effective air operation.

If Australia is to retain an efficient interstate air network in a future with substantially higher oil prices, then the Federal Government should buy back the major capital city airports that were privatised by the previous Howard Government and ensure that they are maintained in a way that is cost-effective.

Recommendation

3. The Federal Government should buy-back the major capital city airports to ensure proper planning of their operations in light of substantially higher world oil prices.

Finally, another omission in the NAP issues paper is the identification of a need for the proper transport connection between many major airports (eg Perth) with the local public transport system, especially the rail network. If oil prices continue their upward march and some people still have to travel by air (eg for business purposes), all efforts should be made for them to be able to access airports by the city's public transport system, as is done well in overseas cities (eg Heathrow with London, Stockholm-Arlanda Airport with Stockholm, Schiphol with Amsterdam).

Recommendation

4. The Department of Infrastructure, Transport, Regional Development and Local Government should ensure all major city and regional airports are integrated with the local rail and public transport systems.

The world has entered a new stage in which there will be no longer easy access to traditional cheap energy sources to drive sectors such as the Australian aviation industry, and the official sources of government information for future prices levels have yet to realise this. Professor Anthony Perl, a transport planning expert from Simon Fraser University in Canada, in a recent article suggests that the combined impact of carbon taxes and peak oil will lead to a situation where "Globally, no more than 25 [major] airports will be functional by 2025,..."¹⁵

We look forward to the Department's green paper being published later in 2008. We would suggest that it include some sensitivity analysis about likely air travel in Australia using future oil prices at US\$200, US\$300 and US\$400 per barrel rather than the historically incorrect figures provided by agencies such as ABARE in Australia

¹⁴ <http://www.travelweekly.com.au/articles/e6/0c03efe6.asp>, *Help stem tourism decline' says NSW body*, accessed 11 April 2008.

¹⁵ <http://www.canada.com/vancouver/news/editorial/story.html?id=4da2acd1-aa12-4d22-adf9-4e611a93a258&p=2>, *Two factors mean the end of air travel as we know it*, accessed 18 April 2008.

and the International Energy Agency in Geneva. Thank you for the chance to make this submission.

Sincerely,

Dr David Worth
Deputy Convenor
STCWA