Tourism & Transport Forum (TTF) is a national member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian transport, aviation, tourism & investment sectors.

Tourism & Transport Forum

Response to *Towards a National Aviation Policy Statement - Issues Paper*

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TTF AUSTRALIA
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Contents

Executive Summary

The Tourism & Transport Forum (TTF) – Australia's national peak body representing the aviation, tourism, transport, hotel investment and infrastructure sectors – welcomes the Rudd Government's commitment to undertake a comprehensive review of Australian aviation. TTF was formed in 1989 as an industry group to lead an advocacy argument in favour of the development of Sydney Airport's then-controversial third runway, so it has always had aviation policy at the very core of its policy focus.

TTF is confident the National Aviation Policy will revitalise the aviation sector and ensure its dynamic contribution to the Australian economy. No other country in the world is as dependent on its aviation links as is Australia, so we need a national approach that addresses the impediments to growth for airlines and airports and balances the needs of the travelling public and local communities. It will also need the flexibility to adapt to the challenges and changes, to put Australia's aviation sector in a better position to respond to future opportunities and threats, now and into the future.

Over the last 10 years, Federal Government reforms to aviation policy, such as airport privatisation, the deregulation of the domestic airline industry and a degree of liberalisation on international routes, have delivered more affordable and available airline services for Australians to meet their recreational, tourism, business and social needs.

However, one area that has traditionally been poor within aviation policy over recent decades has been our approach to planning new airports. Citing Sydney as an example, there was national political gridlock over the third runway at Sydney Airport and the possible development of a new airport at Badgery's Creek. While recognising that airport operations and especially air traffic can have significant impact on local communities, there is, however, a need for more certainty in identifying, securing, planning and developing any future airports in Australia, using the Rudd Government's new agency, Infrastructure Australia, in any future planning.

Reform in the aviation sector, while ad hoc, has provided a catalyst for the meteoric rise of low cost carriers, which have changed the face of Australian aviation. Past Government policy has allowed for Australia's national carrier Qantas to grow and prosper, while developing its low cost carrier Jetstar and enabling the entry of Virgin Blue and its international offshoots, including V Australia.

That reform was delivered against a backdrop of turbulence within the aviation sector as a result of terrorism, the SARS epidemic, the collapse of Ansett, airport noise political campaigns, pilot shortages, industrial unrest, significant declines in tourist numbers from some of Australia's top tourism markets such as Japan and the Asian economic slump.

This turbulence is set to continue with escalating fuel prices threatening the profitability of airlines and forcing them to move away from unprofitable routes. The global credit crunch could impact on consumers' travelling patterns, just as the advent of low cost carriers is changing the existing travel patterns of tourists. The issue of climate change has also entered the global consciousness and is firmly on the agenda of governments and consumers across the world. Climate change will potentially change global consumers' travel behaviours. Labour shortages are also impacting on the availability of pilots and engineers.

Air services and airports provide significant economic benefits to Australia. Airport and air service activity will generate around $80 billion of gross output by 2020 – almost doubling the present level. This makes airports and air services a leading growth sector of the national economy. Australia is blessed to have strong local carriers like Qantas, Jetstar and Virgin Blue, tremendous airport infrastructure and talented public and private sector staff, but without constant review, we risk slippage in our position.

The industry most reliant on aviation is tourism. Aviation is the lifeblood of tourism and a burgeoning and successful Australian tourism industry hinges on aviation access. The National Aviation Policy will need to be closely aligned to and dovetail with the Federal Government's National Tourism Strategy, currently in development.

The challenges facing the aviation sector have in turn impacted on tourism. The tourism industry continues to operate in a challenging environment, with sky rocketing fuel prices, a strong Australian dollar and flight reductions all impacting on the sector. Qantas, Jetstar, Virgin Blue and Rex have responded to escalating fuel prices (and pilot shortages) recently by reducing domestic and international flights, which has impacted on major tourism regions, particularly in Tropical North Queensland.

TTF's *Project X* research initiative, launched in May 2008, identified a number of impediments to growth for tourism. The project identified airline capacity constraints into Australia as one of the tourism industry's impediments to growth. This situation must be addressed given the importance of the $85 billion tourism industry to Australia's economy. The National Aviation Policy will need to ensure air capacity meets visitor demand and enables tourists to disperse throughout Australia.

Given their economic importance, the aviation and tourism sectors needs a vision for air services and a new national policy framework to stimulate change and innovation for the benefit of air travellers, tourism and the economy. The tourism and aviation sectors need an aviation policy framework to address the impediments to growth now and into the future including capacity constraints, regional air access, how to attract new airlines, airport infrastructure and measures to address climate change. No longer can we endure a situation where aviation policy has scant regard for its primary partner and client, the tourism industry. No longer can Federal transport agencies exclude Federal tourism agencies when planning our aviation future. This would perpetuate a massive failing in public policy.

In the preparation of this submission, TTF relied upon a few basic principles to guide its policy recommendations. Primarily, we tried to respect the national interest, avoiding sectional interests and the often-conflicting interests of our various Members, preferring a bold approach to policy to benefit the wider tourism industry and the Australian economy.

In defining the term "national interest", we have assiduously stuck to the principle that the aviation sector is simply a facilitator of the movement of people and air freight in and out of Australia and around the continent. To this end, while we must always be mindful to ensure policy settings that provide for and enable profitable airport and airline management, a much higher calling for aviation policy must be to ensure that tourism, other service exports, community services, air freight and other users of aviation are its primary focus and its main responsibility.

In terms of airport development, planning and operations, we have also tried to balance economic contribution and community concern, recognising the heavy impact aviation has on both how we work and where we live.

On the sensitive issue of international air access to Australia, we have been guided by our desire to allow for the sustainable growth of our Australian-based carriers (recognising the long term benefit of strong local airlines), while also facilitating the entry of international carriers that can help Australia grow its tourism and other export markets around the world. These two need not necessarily be in conflict.

In preparing this submission, TTF recognises that it does not have the expertise or the resources to address every issue raised in the issues paper. We have prioritised our focus on the following areas:

- The importance of aviation and tourism;
- International services;
- Aviation infrastructure;
- Regional and general aviation;
- Domestic services;
- Aviation emissions and climate change;
- Taxation (which was not raised specifically in the issues paper but requires strong consideration in a National Aviation Policy).

TTF makes the following recommendations in these areas:

International services

- **The expeditious development of a strategic 'road map to liberalisation'.**

- **Undertake substantive independent research to establish the costs and benefits of air services liberalisation to the Australian economy.**

- **Air services arrangements need to be negotiated ahead of demand, and linked formally to official Tourism Forecasting Committee forecasts.**

- **Air services negotiations be targeted at key growth markets.**

- **Australia pursues both bilateral and multilateral air services ('open skies') arrangements, according to strategic priorities.**

- **A liberalisation strategy needs to pre-determine the strategic use of fifth freedom rights.**

- The examination of options for air services on the trans-Pacific route should be incorporated into a substantive research project establishing the costs and benefits of air services liberalisation to the Australian economy.

Aviation infrastructure

- The Federal Government should maintain the existing Airport Act, as planning and development mechanisms under the act are effective.
- The National Aviation Policy should recognise the importance of airport infrastructure to the Australian economy.
- The National Aviation Policy should recognise the importance of non-aeronautical developments as a key revenue stream for airports.
- Infrastructure Australia needs to consider the impact of future airport growth in the audit of infrastructure priorities for Australia.
- The Federal Government develops a coordinated, partnership approach to facilitate the improvement of land transport links to airports.
- The Building Australia Fund and Auslink funding should be used to expedite land transport links to airports to ensure airport growth is not hindered.
- Support growth in capacity to joint user airports, such as Newcastle Airport.
- The Federal Government plays a coordinating role in airport planning and development to ensure the safety and operation of airports is not compromised.
- Federal Government to prioritise a decision on the future of aviation to Sydney, including a medium term and longer term solution in the National Aviation Policy.
- Allow for the utilisation of all Sydney Basin Airports to increase the supply of airport capacity in the Sydney.
- Federal Government to undertake a feasibility study on the options to increase capacity at Richmond and Bankstown Airports.
- Upgrading of existing land transport connections to Bankstown and Richmond Airport to ensure both are viable options for passenger traffic.
- Remove the regional ring fence at Sydney Airport, to provide efficiency gains.
- Review and re-examine Australia’s existing noise management systems to introduce a more flexible approach to noise mitigation.

- Maintain the current curfew-free status of Brisbane and Melbourne to ensure the long-term economic interests of the country.

- Index the value of developments at airports for the purposes of being subject to the Major Development Plan process .

- Reform Australian quarantine inspection services and strongly recommend the implementation of a risk management approach to quarantine inspection.

Regional aviation

- The Federal Government, through Tourism Australia and the Tourism Forecasting Committee, identifies targets for regional dispersal of international visitors. These targets should be used to identify regional airports that need to be upgraded or that need additional immigration, security, customs, quarantine and air traffic control services to meet forecast demand.

- The Federal Government to identify and offer financial incentives to encourage the development of regional airports as recommended in the Centre for Asia Pacific Aviation (CAPA) study into *Air travel impediments to regional dispersal of international visitors*, but must ensure that this does not come at the expense of the wider aviation network.

General aviation

- The Federal Government provides a policy framework that supports the growth and development of GAAP airports such as Bankstown Airport.

Domestic services

- The Federal Government remove foreign ownership restrictions under the Qantas Sale Act 1992.

Aviation emissions and climate change

- The aviation industry should be included in an Australian emissions trading scheme on an equitable basis with other industries

- The Federal Government should investigate the environmental benefits of introducing an accelerated depreciation regime for Australian airlines.

- The Federal Government should continue to provide a strong mandate for Airservices Australia to develop efficiency measures to reduce fuel burn and greenhouse gas emissions.

- The Federal Government should establish a formal accreditation program for carbon offset schemes.

- **The Federal Government should not introduce a 'green tax' on aviation.**

Taxation

- **That the Federal Government undertake modelling on the cumulative impact of government charges on demand on air travel to Australia.**

- **That the Federal Government provide greater transparency in the Passenger Movement Charge (PMC) and the associated investment by the Government in airport security.**

- **In the instance of future changes to PMC, that the Federal Government consult with industry (including the aviation and tourism sector) prior to introducing the changes.**

- **The Federal Government should intervene, via the Council of Australian Governments (COAG), and mandate the removal of stamp duty on airline insurance imposed by states and territories.**

1. About us - Tourism & Transport Forum (TTF)

Tourism & Transport Forum (TTF) is the peak industry group for the Australian tourism, transport, aviation and investment sectors. A national, Member-funded CEO forum, TTF advocates the public policy interests of the 200 most prestigious corporations and institutions in these sectors. TTF is one of Australia's leading CEO networks and represents over 460,000 employees.

Within the aviation, transport and tourism sectors, TTF's membership consists of representatives from:

- Airlines;
- Airports;
- Convention and exhibition centres;
- Cruise lines and sea ports;
- Cultural attractions;
- Duty-free stores and other airport retailers;
- Hotel managers and owners;
- Infrastructure owners and institutional investors;
- Natural tourism operators and parks agencies;
- Public transport operators;
- Rental car companies;
- Resorts and serviced apartments;
- Restaurants;
- Tourism Retailers;
- Theme parks;
- Tourism, event and convention marketing organisations;
- Travel distributors; and
- Major event and business tourism venues.

A National Aviation Policy will impact on the operations of businesses across our membership base. The TTF asks that the Federal Government considers the recommendations for a National Aviation Policy as outlined in this submission, on behalf of our Members.

2. The importance of aviation and tourism

2.1 Aviation

Considering its geographic isolation and decentralisation, no other country in the world is as reliant on aviation as Australia. The aviation sector connects Australia with the rest of the world and delivers affordable and available airline services for Australians to meet their recreational, tourism, business and social needs. Aviation also enables overseas tourists to travel to Australia and domestic tourists to travel around Australia, and spend their money far and wide throughout the country.

Aside from providing access, the sector also provides significant economic benefits to Australia. TTF's *Assessing the Impacts of Privatisation of Selected Airports* estimates that airport and air service activity will generate around $80 billion of gross output by 2020, almost doubling the present level (Refer to Attachment 1). This makes airports and air services a leading growth sector of the national economy. A National Aviation Policy must provide a framework with which airports and air services can continue to contribute to the Australian economy.

2.2 Tourism

Aviation is the lifeblood of Australia's $85 billion tourism industry. A burgeoning and successful Australian tourism industry hinges on aviation access. Australia is forecast to welcome nearly 9 million overseas visitors each year by 2016[1], but they can only get here if there are enough plane seats available at a competitive price, and if there is appropriate airport infrastructure and airspace management.

Tourism makes an important contribution to the Australian economy. It is a $22.3 billion export industry (which is 10.4 percent of Australia's export earnings), is the second highest export earner after coal and is the biggest services export sector. The sector is also a major provider of jobs, employing nearly half-a-million Australians, many of which are in regional areas.

Given the economic importance of the sector, a National Aviation Policy should create a framework that facilitates international and domestic tourism demand. It needs to cater for tourism growth from major developing tourism markets, including China, India and the Gulf Countries and provides access to regional Australian communities, to encourage visitor dispersal and domestic tourism. The policy will need to take into account the tourism markets that are forecast to grow rapidly including the US (forecast to welcome 795,00 visitors per year by 2016), the UK (forecast to welcome 942,000 visitors per year by 2016 and China (forecast to welcome over one million visitors per year by 2016).

The ability to grow Australia's new and emerging tourism markets will also depend on Australia's ability to attract new airlines and air services and maintain efficient passenger processing measures.

i) Performance of the tourism industry

While the tourism industry is a major contributor to the Australian economy, using most indicators, Australia is losing ground as a tourist destination. While segments of the industry are performing strongly, in overall terms (notably and regrettably outbound tourism), the industry is not, and has certainly not delivered on the optimism with which it started this decade. This trend needs to be reversed. The Rudd Government's twin processes, the National Aviation Policy White Paper and the National Tourism Strategy, will both play a major role in that and must both be closely aligned.

In May 2008, TTF launched the findings of a groundbreaking tourism innovation initiative called *Project X.* It aimed to take an evidence-based approach to identifying the

[1] Tourism Forecasting Committee, *Forecast 2007 Issue 2*

impediments to tourism growth, to look at ways to establish a strong competitive position for the industry over the next 10 years.

Project X found that, while Australian Bureau of Statistics (ABS) figures show international arrivals to Australia have increased in the last seven years by 1.9percent, they haven't done so at the same rate of other destinations, with World Tourism Organisation figures showing that global international tourism has grown 4percent. Alarmingly, international holiday visitors to Australia have barely increased in seven years (between 2000 and 2007 - increase of only 0.35percent), which means that Australia is losing its market share to other countries.

Outbound tourism from Australia on the other hand, continues to grow (up 6.6percent in 2007). Almost the same number of Australians travels overseas as international visitors come here. The massive growth in outbound travel from Australia and the minimal growth in inbound travel mean that Australia is fast becoming a net-importer of tourism. Australians nearly spend as much overseas (total of $22 billion) as overseas visitors spend here (total of $22.4 billion).

Project X identifies airline capacity constraints into Australia as one of the tourism industry's impediments to growth, particularly from some of Australia's major tourism markets including the USA, UK, Singapore, Hong Kong, Malaysia and Germany. The project also identifies the high cost of airline tickets to Australia as a major issue (Refer to Attachment 2 for an excerpt from *Project X* relating to aviation).

Beyond these impediments to growth, the tourism industry continues to operate in a challenging environment, with sky rocketing fuel prices, a strong Australian dollar and flight reductions all impacting on the sector. Qantas, Jetstar and Virgin Blue have responded to escalating fuel prices by reducing flights, which has impacted on major tourism regions, particularly in Tropical North Queensland.

This situation must be addressed given the importance of the $85-billion tourism industry to Australia's economy (Refer to Attachment 3 for information about the importance of aviation to the economy). The success of the national economy will increasingly depend on the performance of the tourism industry, especially in a post-resource boom scenario.

3. International services

This section relates to section 1.1 in the *Towards a National Aviation Policy Statement Issues Paper* and addresses the following:

- Do Australia's international air services policies serve Australia's national interest and balance the need to have an Australian based industry with robust competition from international competitors?

- What should our negotiating priorities and approach be in the future?

- How will new routes, technology and business structures change the profile of Australia's aviation market?

- Given Australia's evolving aviation sector, to which markets should the Australian Government seek improved access?

3.1 Tourism is an important part of the national interest

Aviation policy is a key factor in determining the price and availability of international air travel. Aviation policy therefore influences patterns of tourism flows and the total level of tourism both into and out of Australia.

Aviation policy, especially in relation to international services, affects a number of distinct interests including[2]:

- The Australian tourism industry;
- Australian travellers;
- Australian airlines and their workforces;
- Australian airports, their owners and workforces;
- Foreign airlines; and
- Australian governments, state and federal.

In order to ensure Australia's international air services policies are serving the national interest, it is important to define the economic impact of these distinct groups.

TTF research demonstrates that:

- Tourism employs 470,000 people, with a gross output of $66.6 billion; compared to
- Airport and air services which, employ 170,000 people, with a gross output of $43 billion[3].

[2] STCRC (2006) "International Aviation Liberalisation: Developing a Framework for Analysis and Discussion"
[3] 2005/06 ABS data.

By 2020:

- Tourism is expected to employ more than 1 million people, with a gross output of $145 billion[4]; compared to
- Airport and air services, which are expected to employ 350,000 people, with a gross output of $80 billion.

TTF believes that, while we must always be mindful to ensure policy settings that provide for and enable profitable airport and airline management, a much higher calling for aviation policy must be to ensure that tourism, other service exports, community services, air freight and other users of aviation are its primary focus and its main responsibility.

3.2 Current arrangements in international services

TTF acknowledges the progress the Australian Government has made toward liberalising international services and strongly encourages the Rudd government to continue this important work.

Key markets where there are no restrictions on services include New Zealand, United States, Singapore, and the United Kingdom. In the case of the latter two markets however, restrictions remain on either beyond or intermediate points respectively.

TTF welcomed the Australia-United States open skies agreement agreed to in February this year and also recognises the capacity increases provided for in the Australia-United Arab Emirates and Australia-Qatar agreements agreed to in March 2007.

TTF would also like to acknowledge the Australian Government's work in delivering the horizontal agreement, signed in April 2008, which recognises the existence of a single European market for air transport links to and from Australia.

3.3 Constraints to growth in international services

Australia experienced record international airline load factors in 2007. On average, international inbound aircraft had load factors of 78 percent, compared to 74 percent in 2006. Markets where load factors were greater than 78 percent included Singapore, United States, Hong Kong, United Kingdom, Thailand, Malaysia, China, South Africa, Germany, Philippines, India, and Argentina (Refer to Attachment 4 for international and domestic services forecasts to 2015).

3.4 Key international markets

In the period to 2015, TTF anticipates dramatic growth in the number of middle class households in Asia led by China, India, Vietnam and Indonesia (Refer to Attachment 5). These households will be looking for international travel experiences, including to comparatively close, friendly, safe and English-speaking/western destinations.

[4] Forecast assumes a compound average annual growth rate of 5.7 per cent.

As GDP increases by between 7 and 10 percent per annum in markets like China, India, Indonesia and Vietnam, the number of consumers with household income above a threshold level increases far more quickly.

For example, Asian Demographics predicts that if average Chinese household urban incomes increase by 38 percent, the share of urban Chinese households with incomes between Rmb 60,000 and Rmb 120,000 increases by 128 percent.

Extending this analysis to 2015 would see very dramatic growth in the number of Chinese urban middle class households.

Attachment 5 provides TTF's analysis of the forecast growth of the Asian middle class.

3.5 A 'road map to liberalisation' for international services

TTF supports the further liberalisation of Australia's international services. Liberalisation is in the interests of the tourism industry, Australian airports and both Australian and international airlines. Broadly speaking, TTF supports the principles set out by the previous government in April 2006 in relation to international services. These principles 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;
- 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; 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).

However, TTF believes it is now critical that the Federal Government develops a 'road map' which details how these principles will be applied in practice.

i) Priorities for a 'road map'

The Victorian Government has called for substantive research to establish the costs and benefits to the Australian economy of liberalising international services. TTF would support strongly such a research project as a necessary precursor to the drawing-up of a liberalisation strategy, and recommend the use of independent and authoritative consultants. By quantifying how air services affect Australian aviation's productivity and competitiveness in global markets, the Government would provide an empirical basis for debate on the future strategic direction of international services policy.

Assuming this foundation, TTF has identified some key priorities for the development of a 'road map' to liberalisation. Firstly, air service arrangements must be negotiated ahead of demand. In practice, this has not occurred particularly in the case of a key market like China. Negotiation of international air services must therefore be linked to official tourism forecasts. Secondly, air services negotiations must be targeted at key growth markets – those markets most likely to experience economic growth and therefore a significant increase in demand for outbound tourism. Thirdly, Australia must actively pursue both bilateral 'open skies' air services arrangements with key individual nations and multilateral 'open skies' arrangements with regional groupings such as the Association of South-East Asian Nations (ASEAN) and the EU. Finally, the road map should define the strategic use of fifth freedom rights going forward (examples of this could include easing the process for Australia to join an ASEAN or EU 'open skies' framework and securing additional capacity between Hong Kong/China and London - as discussed in the next section).

3.6 Access to the trans-Pacific route

The Australia-US market is one of the few aviation markets Australia protects. It is also the route that preoccupies tourism industry attention. Under the terms of the Australia-US open skies agreement, Australian and US airlines may operate unlimited trans-Pacific services but third-country airlines are prohibited from flying on the route.

There is a view among some in the tourism and aviation sectors that third-country airlines should be granted access to the trans-Pacific route, on the basis that there are capacity constraints on the route and that US airlines are unlikely to increase services in the near future. The average load factor on flights between the US and Australia during 2007 was 80 percent, an increase of 2 percent on the previous corresponding period.[5]

Qantas will boost capacity on the route by introducing A380 services in October 2008, and Virgin's V Australia will similarly add capacity when it launches services in December 2008. There appears to be little interest at this time for US carriers, other than the incumbents (United and Hawaiian) to fly the route and Jetstar has made no definitive moves toward its own trans-Pacific services.

However, it has been argued that this increase in seat Qantas and V Australia availability will still be insufficient to meet demand and reduce airfares in the US market. Anecdotal evidence provided by US travel trade operators to TTF's *Project X* tourism study suggests the lack of available seats on the US-Australia route, and relative high pricing compared to other routes out of the USA, is making it difficult to sell Australia as a destination.

Singapore Airlines has consistently made the case for fifth freedom access to the trans-Pacific route, arguing that would increase competition and reduce fares on the route. In the context of the present issues paper, Singapore Airlines' case is supported by the

[5] BITRE, *International Scheduled Air Transport 2007*

Victorian Government. Air Canada has also made representations to fly to Australia from Canada, via the USA.

There is also some emerging thought that a new EU/Australia open skies deal would allow carriers from both jurisdictions to fly a Trans-Pacific/Trans-Atlantic route, across continental USA.

TTF believes the Federal Government should consider how fifth freedom rights (such as beyond rights to the US) could be used as a mutually-beneficial device to attract new carriers and further the strategic objectives of Australian airlines. Examples of this would include easing the process for Australia to join an ASEAN 'open skies' framework and securing additional capacity between Hong Kong/China and London.

Given the emphasis placed by TTF and others in the tourism and aviation sectors on a demand-based approach to international services negotiations, it is important that options for the trans-Pacific route are not considered in isolation from other priorities, such as Australia's bilateral and potential multilateral arrangements in Asia. However, it is also imperative that this leverage is used, and not simply warehoused, as a way to ensure greater overall airline access to Australia. If the Federal Government considers changes in access on the trans-Pacific route, this should be leveraged to provide new and maximise existing opportunities for Australian carriers. Again, there is a strong case for substantive research to be commissioned to determine the economy-wide implications of Australia's current air services arrangements – including on the trans-Pacific route.

i) The importance of the national carrier

TTF maintains an unashamedly pro-liberalisation policy stance, recognising the inherent national interest in growth of total air access and in a competitive aviation environment. However, TTF also sees that the national carrier, Qantas, has a crucial role within the Australian tourism industry, accounting for 26.8 percent of the market in international passenger carriage to and from Australia.[6] It is important that Federal Government policy settings enable Qantas to maintain a competitive position in international aviation markets. As well as being the primary provider of aviation capacity into Australia, Qantas is a major employer and generator of economic activity, a strong commercial partner of the tourism industry and a key aspect of Australia's brand and marketing presence in the international tourism market.

TTF supports the Federal Government's principle that international air services policy must recognise the economic contribution of an Australian-based airline industry and have fidelity to our local airlines. This reminder was made starkly to the tourism industry in the wake of the collapse of Ansett in September 2001. Equally, however, TTF believes that the strategic liberalisation of international air services needs not be incompatible with the interests of Qantas as Australia's national carrier. In the context of the National Aviation Policy, Qantas has expressed support for a measured approach to further bilateral liberalisation on a demand-responsive basis and for the close monitoring of multilateral developments.

[6] BITRE, *International Scheduled Air Transport 2007*

It is also a measure of significant pride to the Australian tourism industry to note that Qantas has thrived and survived two decades of upheaval, including integration with Australian Airlines, deregulation of domestic aviation, privatisation, increased competition and the launch of Jetstar. It stands today as one of the most successful, innovative and even profitable airlines in the world and a rare success story among global 'legacy carriers'. Similarly, the development of Virgin Blue and Jetstar as two of the world's best low coast carriers, the evolution of Virgin Blue into a hybrid domestic carrier and its expansion to regional and international services all provide great credit to the airlines themselves, and to the regulatory environments that enabled this growth.

In order to maintain the viability and success of Australian-based airlines, TTF is also strongly supportive of policy measures such as: access to foreign-based crews; Government representations to gain access to foreign markets, routes and airports; changes to depreciation regimes on aircraft; and reforms to the overly-restrictive Qantas Foreign Sale Act. Some of these measures are dealt with separately in this submission.

It is TTF's view that such an approach can be adopted by the Federal Government without compromising Qantas' commercial aspirations – for example, in the negotiation or extension of reciprocal bilateral arrangements between Australia and markets in South-East Asia and the broader Asian region.

TTF also supports strongly the continued growth of Virgin Blue (including V Australia, Pacific Blue and Polynesian Blue), and commends the Federal Government for enabling V Australia's entry onto the Australia-US route. The principles set out above in relation to Qantas as Australia's national carrier apply similarly to Virgin Blue as Australia's second international airline.

Recommendations

- **The expeditious development of a strategic 'road map to liberalisation'.**
- **Undertake substantive independent research to establish the costs and benefits of air services liberalisation to the Australian economy.**
- **Air services arrangements be negotiated ahead of demand, and linked formally to official Tourism Forecasting Committee forecasts.**
- **Air services negotiations be targeted at key growth markets.**
- **Australia pursues both bilateral and multilateral air services arrangements ('open skies'), according to strategic priorities.**
- **A liberalisation strategy should pre-determine the strategic use of fifth freedom rights.**

- **The examination of options for air services on the trans-Pacific route should be incorporated into a substantive research project establishing the costs and benefits of air services liberalisation to the Australian economy.**

4. Aviation infrastructure

This section relates to section 2.1 in the *Towards a National Aviation Policy Statement Issues Paper* and addresses the following questions:

- Are the planning and development mechanisms under the Airports Act working effectively?
- How can we improve consultation with State and local authorities and with the community?
- How can the regulatory regime better ensure non-aeronautical developments do not compromise the aeronautical requirements of airlines and airports?
- How can we better ensure off-airport developments subject to state and local government planning regimes, such as tall buildings, do not compromise the safe and effective use of aviation infrastructure?
- What are the current and future pressure points in relation to airport capacity?
- Can the growing use by civil aviation of joint user or Defence-owned airports be safely and effectively accommodated?
- How can the protection of the communities around airports from undue aircraft noise best be addressed as demand for services continues to grow?

4.1 Importance of aviation infrastructure to Australia

Airports are a critical element of Australia's economic infrastructure, with Sydney Airport arguably Australia's single most important piece of infrastructure, considering its export facilitation contribution.

Due to Australia's distance from the rest of the world and the huge landmass it encompasses, airports play an increasingly important role in the country's economy, and it is vital that they continue to attract investment and are protected from development that compromises their operations. Ensuring the continued unhindered growth of Australia's airports is therefore critical to the success of our tourism industry and the Australian economy.

For the tourism industry, airports are not only the gateways for millions of visitors each year to Australia, but they also impact on the traveller's experience. Airports have a significant role in ensuring a tourist's first and last impression of Australia is positive, supporting our reputation as an attractive tourist destination.

i) Assessing the economic impact of airport privatisation

TTF commissioned URS to prepare a report, *Assessing the impact of airport privatisation*, to quantify the importance of airports to Australia's economy and the tourism industry.

The report demonstrates that the privatisation of Australia's airports has been a resounding success, with airports generating significant investment and economic growth at no cost to the taxpayer. The report also shows that the Federal Government's privatisation policy delivered improvements in airport operating efficiency, financial performance and investment levels and has overall delivered significant benefits to the Australian economy.

Importantly, the sale of airports has freed resources for other public programs. In total, the sale's proceeds have contributed $8.5 billion to the Commonwealth's consolidated revenue.

The privatisation of airports across the country has also helped improve the flexibility of Australia's airports and increase the industry's global competitiveness.

ii) Non-aeronautical development in airports

Non-aeronautical development on airports in Australia has led to controversy, particularly in the years immediately following privatisation.

TTF maintains that non-aeronautical development and revenues are fundamental to ensuring that airports remain a bankable proposition. Diversity in an airport's revenue stream will help to protect it from external shocks, industry trends and volatile markets.

TTF's report found non-aeronautical revenues across Australia's airports increased over the pre- and post-privatisation period from 62.7 percent in the pre-privatisation period to 65.4 percent of total income in the post-privatisation period.

iii) Capital Investment in airports

Diversified revenues are linked to greater investment and innovation. In terms of investment, continual capital investment is imperative for future commercial growth in order to: cater for forecast demand; replace obsolete or constrained infrastructure; and remain internationally competitive.

In absolute dollar terms, capital investment in Australia's major airports has totalled $2.3 billion post-privatisation.

In the context of a post-September 11 environment characterised by negative growth in passenger movements, this investment would simply not have occurred under government ownership.[7] This demonstrates the flexibility and responsiveness of airport investment in the post-privatisation environment.

TTF estimates significantly more will be spent on major runway construction over the next 15 years than was spent during the previous 20 years. TTF also estimates total investment at airports to exceed $10 billion over the next two decades. The economic benefits of this forecast expenditure are significant and dispel any perceptions that aeronautical development is not a key objective of Australia's privatised airports.

It is estimated that each billion dollars of capital expenditure at airports generates around:

- $3.5 billion of gross output;
- $1.47 billion of value added; and
- $0.8 billion of wage and salary income to 19,000 workers.

These planned long-term investments will translate into more capacity, efficiency gains and enhanced benefits for the entire community.

4.2 Reducing constraints to airport infrastructure

The Federal Government should provide certainty for investment and remove threats to airport growth. TTF's above-mentioned report shows the significant benefits of airport investment to the Australian economy. Any policies which frustrate airport growth will therefore come at a significant opportunity cost to the Australian economy.

Denying airports the ability to grow will translate into reduced employment opportunities for Australians.

Key constraints to airport growth include a lack of coordinated transport planning, RAAF operational constraints at joint user airports, state government residential planning decisions, and the Federal Government's imposition of artificial constraints on airport operations.

i) Transport networks

Australia continues to be hampered by singular responsibilities over transport networks.

The Federal Government's establishment of Infrastructure Australia will help provide a national approach to planning, funding and implementing Australia's future infrastructure needs. TTF strongly supports this approach.

Infrastructure Australia will soon set about developing a blueprint for the nation's infrastructure needs, and call upon state and territory governments, along with the private sector, to help it remove key bottlenecks in transport infrastructure. This is especially the case in regard to congestion at or around export infrastructure, such as sea ports, where the Federal Government has identified and prioritised a role of for itself in these precincts to enable road and rail access to ports.

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[7] International ppassenger movements fell by 4 and 2 per cent during 2001/02 and 2002/03 respectively.

Within this process, it is critical that Infrastructure Australia considers the impact of future airport growth in its audit of nationally strategic infrastructure, and that a coordinated, partnership approach is developed to facilitate the improvement of land transport links to airports. Perth, Brisbane and Canberra Airports are all examples of road congestion requiring Federal assistance. Not all of this congestion on local roads is being caused by aeronautical or even non-aeronautical activities on airport, but all of it is greatly hampering access to airports – and therefore impacting on export growth in the same way that is occurring at some sea ports.

While TTF is very strong in its defense of the continued planning control of airports by the Federal Government, it is appropriate that this control is met by its financial contribution. The Commonwealth banked $8.5 billion from the sale of Federal Airports Corporation (FAC) airports, and therefore it is incumbent upon the Federal Government to provide financial support for the growth and development of these airports.

The Building Australia Fund, along with AusLink funding, should be used to expedite these important projects and ensure airport growth is not hindered by inefficient land transport networks. There is an obvious and compelling need for Federal funding to assist State Governments meet the needs of road access and congestion around major airports.

ii) Reducing RAAF operational constraints at joint user airports

The changes in global aviation, with the growth in low cost carriers (LCCs), presents new opportunities for Australia's growing aviation market.

Across Europe and the US the growth in LCCs has seen the increase in demand for secondary airports driven by strong consumer demand for cheap travel to new destinations. This trend is also growing in Australia, with demand in services to some regional airports such as Ballina, as well as secondary airports in capital cities including Newcastle and Avalon, being driven by LCCs.

This trend is expected to continue in Australia, providing a boost to local and regional economies and helping to grow the tourism sector in surrounding areas.

It is therefore critical that joint user airports are allowed to capitalise on the growth and are not hampered by the constraints of RAAF operational requirements. This is the case with Newcastle Airport.

Newcastle Airport is one of Australia's fastest growing airports, and a vital economic contributor to its region, estimated to be worth $433 million per annum, supporting 3,128 jobs. Importantly, passengers who pass through Newcastle filter into surrounding regions: Port Stephens and the Upper North Coast, Lake Macquarie, Hunter Wine Country, Maitland, Barrington Tops, Upper Hunter Country and Singleton.

Newcastle Airport has taken a lead role in growing tourism to the region, developing an Inbound Tourism Strategy with the aim of building greater cooperation between the region's tourism industry and airlines.

The direct benefit generated by Newcastle Airport to the tourism industry is estimated at over $150 million, generating over 894 jobs annually.

Newcastle Airport has the capacity to grow to approximately four million passengers per annum including limited international services. This growth needs to be supported by the RAAF by providing for:

- Increased arrivals from 6 to 8 per hour;
- Increased standard operating hours from 6am-10pm to 6am-11pm;
- Inclusions of a set number of Code E (international) flights at about two per day;
- So-called "back of clock operations" to promote aerospace engineering activity, international flights and freight activity.

iii) Land use around airports and state government residential planning decisions

It is clear that inappropriate development around airports threatens to compromise the safety and operational integrity of airports. It is critical that the Federal Government's national aviation policy reflects the central role airports play in city and regional economies.

There is no issue that demonstrates better why airport planning and development controls must rest with the Federal Government than the NSW Government's approach to residential development at Queanbeyan.

In 2007, the NSW Minister for Planning, the Hon Frank Sartor MP, approved a residential land release under Canberra International Airport's flight path. This approval was granted despite the Independent Panel of Inquiry, appointed by the NSW Government, strongly and unambiguously recommending against such development. The decision is currently before the court.

Put simply, if rezoning occurs and residential development is allowed under the flight path, pressure for a curfew on Canberra International Airport would mount. This would compromise the aeronautical requirements of the respective airlines and the growth plans of Canberra International Airport and ultimately cut jobs for the people of Queanbeyan.

Other examples of this include an approach by some local councils in Western Sydney in the 1990s to encourage and allow development of residential communities under the proposed Badgery's Creek flight path as a way to hinder potential airport development. Similarly, TTF is concerned about residential development in Hamilton on the Brisbane River which will simply impose noise on new residents under the Brisbane Airport flight path.

iv) Artificial constraints on airport operations

It is important to maintain the right balance between airports' economic contribution and their social and environmental impacts. There is also an ongoing need for community consultation and consideration of community concerns relating to aircraft noise.

However, the imposition of artificial constraints on airport operations comes at a significant opportunity cost to the Australian economy and the tourism industry. Artificial constraints on airport operations include curfews, caps on the number of aircraft movements permitted and ring fencing regional services. The latter two constraints will be discussed in the next section, in the context of Sydney Airport.

There is no doubt significant improvements in aviation have delivered quieter aircraft and therefore it is timely for the Federal Government to review the existing noise management regime. Today's next generation jet aircraft provide significant noise improvements of over 30db. Boeing's 787, for example, is 60 percent quieter than equivalent aircraft in service while Airbus' A380 is 50 percent quieter than a 747.

TTF recommends that the Federal Government reviews existing curfews and introduces a more flexible and best practice approach that accounts for the impact of new aircraft engine technology. This could include the provision of exemptions during the curfew for low noise aircraft. This approach is applied in London, in place of a blanket curfew, where some limited movements of specific types of aircraft (appropriately noise-rated) are allowed during night hours.

TTF also maintains that the current curfew-free status of Melbourne and Brisbane Airports is critical to the economic performance of Australia's tourism and aviation industries. Both airports have identified the strategic importance of maintaining their 'curfew-free' status.

a) *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 of 4.9 percent and international passengers by 6.6 percent. BITRE estimates the number of passenger movements through Melbourne Airport will increase by an average of 4 percent a year over the forecast period to 46.4 million in 2025–26. The number of international and domestic passenger movements through Melbourne Airport is projected to increase by an average of 4.3 and 3.9 percent respectively a year over the next 20 years, to 10.1 million and 36.2 million in 2025–26.

Melbourne Airport is projected to spend over $1.25 billion in capital works over the next 10 years. With the A380 works completed on schedule and a $550 million development program underway to accommodate growing passenger traffic, Victoria must continue to reap the benefits that come from having an "air city", unconstrained by a curfew, on its doorstep.

Melbourne Airport estimates that its curfew-free status contributes $309 million to Victoria's gross state product and that if the airport were subject to curfew, it would cost an estimated 4,600 jobs.

b) *Brisbane Airport*

Brisbane Airport is Australia's third largest capital city airport and is the domestic and international gateway for Queensland, servicing around 18 million passengers in 2007. Since privatisation, Brisbane Airport has grown international passenger numbers by over 62 percent and domestic numbers by 78 percent, and has invested more than $700 million. BAC plans to invest a further $2.5 billion in roads, runways and terminal infrastructure to meet forecast passenger demand, which is expected to reach more than 25.6 million by 2015 and around 50 million by 2035.

Brisbane Airport identifies, for example, the significant costs associated with imposing a curfew, which have been measured in terms of loss of international flights, decline in tourism numbers, reductions in the attractiveness of the region for investment, higher airfares and congestion.

(v) Indexation of Major Development Plans (MDPs) thresholds

TTF strongly supports the Federal Government's commitment to index the value of developments at airports for the purposes of being subject to the Major Development Plan process.

Indexing the MDP thresholds (currently $20M) annually in accordance with non-residential building costs, would reflect the unprecedented increases in building costs across Australia.

(vi) Passenger processing

Australia's major gateways have been experiencing significant delays in the processing of passengers through customs, immigration and quarantine (CIQ). While considerable investment has been made by the aviation industry, CIQ resources appear to have not kept pace with increased passenger growth, particularly at peak periods.

All other things being equal, these delays will only worsen with the natural growth in passenger numbers and the introduction of larger aircraft such as the A380.

a) *Economic costs of delays in passenger processing*

Delays in processing passengers by border control agencies frustrate the legitimate movement of people into and out of Australia. This has economic consequences for tourism given that the delays impact on the 'first impression' that tourists gain when entering Australian ports. This reputation can adversely affect Australia as an attractive tourist destination, eventually leading to leakages from the economy.

Delays in processing passengers by border agencies also mean less time spent by travellers on airside and landside spending, leading to further economic loss for airports and retailers.

There are also negative flow-on effects from congestion at border controls. Delayed passengers lead to delayed flights. Consequently, airline outbound on-time performance, interlining arrangements and airline performance within the domestic network are also adversely affected.

b) Passenger Facilitation Taskforce (PFT)

TTF is the only organisation representing tourism interests to have attended and participated in all industry consultation meetings, and is a strong supporter of the PFT, its work plan and initiatives. In TTF's view the PFT has proven very effective in addressing the Taskforce's terms of reference.

TTF supports the PFT's work plan including the introduction of express paths (to facilitate frequent travellers); in-line screening trials (that allows quarantine inspection screening before baggage distribution); SmartGate technology using e-passports for in- and outbound traffic; whole-of-airport facilitation standards; and a focus on trans-Tasman facilitation.

However, more needs to be done in relation to delays at the secondary line and quarantine inspection.

c) Delays caused by quarantine inspection

In TTF's submission to the Federal Government's review of Quarantine and Biosecurity (April 2008), we advised that continued implementation of existing quarantine policies at airports is unsustainable.

Without radically changed quarantine inspection policies by 2011, TTF expects increasing chaos at Australia's airports due to:

- Growth in annual passenger numbers of around 25 percent per annum;
- Growth in annual passengers to and from higher risk countries at around 39 per cent per annum;
- Continuing physical restrictions on the areas in airports available for quarantine policing between the baggage delivery and travellers entering Australia;
- Larger increases in average peak hour arrivals than in total annual passenger arrivals, due to increased international aircraft arrivals and use of larger aircraft including the A380; and as a result
- a more than doubling of current peak hour queue lengths and queuing delays.

TTF's submission calls for urgent reform of Australian quarantine inspection services and strongly recommends the implementation of a risk management approach to quarantine inspection.

Recommendations

- **The Federal Government maintains the existing Airport Act, as planning, pricing and development mechanisms under the act are effective.**

- **The National Aviation Policy recognises the importance of airport infrastructure to the Australian economy.**
- **The National Aviation Policy recognises the importance of non-aeronautical developments as a key revenue stream for airports.**
- **Infrastructure Australia considers the impact of future airport growth in the audit of infrastructure priorities for Australia.**
- **The Federal Government develops a coordinated, partnership approach to facilitate the improvement of land transport links to airports.**
- **The Building Australia Fund and Auslink funding be used to expedite land transport links to airports to ensure airport growth is not hindered.**
- **Support growth in capacity to joint user airports, such as Newcastle Airport**
- **The Federal Government plays a coordinating role in airport planning and development to ensure the safety and operation of airports is not compromised**
- **Review and re-examine Australia's existing noise management systems to introduce a more flexible approach to noise mitigation**
- **Maintain the current curfew-free status of Brisbane and Melbourne to ensure the long-term economic interests of the country.**
- **Index the value of developments at airports for the purposes of being subject to the Major Development Plan process .**
- **Reform Australian quarantine inspection services and strongly recommend the implementation of a risk management approach to quarantine inspection.**

4.3 Maintaining Australia's critical airport infrastructure

i) Sydney International Airport

Sydney Airport is the single most economically important piece of infrastructure in Australia. The Airport facilitates 43 airlines, which connect to over 50 international, 23 domestic and 28 regional destinations, while accommodating over 46 percent of all Australia's international traffic, 70 percent of all first-time visitors to Australia, and more than 31 million passengers (in total for 2006/07 alone).

The economic impact of Sydney Airport is significant, accounting for more than two percent of the Australian economy, six percent of the NSW economy and generating more than 200,000 jobs either directly or indirectly.

Sydney Airport, since privatisation, has invested over $850 million into its infrastructure. Sydney Airport's current master plan predicts the use of the airport will double by 2023/24, increasing from 31 million to 68.3 million passenger movements per annum. This is equivalent, by current standards, to London Heathrow Airport, currently ranked the third busiest airport in the world.[8]

In contrast, the Bureau of Infrastructure, Transport and Regional Economics (BITRE) has forecast passenger movements at Sydney Airport of about 63 million by 2025/26. The BITRE concludes that 'expected high rates of growth in passenger movements are likely to mean that aircraft movements at Sydney in the peak will run up against the cap at a future point'.

Sydney Airport in fact, is currently ranked the 24th busiest airport in the world and any review of Australian aviation must prioritise measures to enable the continued growth and operation of the nation's premier international gateway.[9]

Airport Coordination Australia (ACA) reports that for the current season (Summer 2008) Sydney Airport's hourly slots have reached 90 percent or more utilisation (maximum day) for 3.5 hours in the day (i.e. equivalent to 21 percent of the slot controlled operating period). There are no slots available at Sydney Airport in the 07:00-08:00 hour.

In the winter season (Nov 2008 to Mar 2009), Sydney Airport's hourly slots will be at 90 percent or more utilisation (maximum day) for more than two hours in the day, with no apron capacity between the 07:00-08:00 hour (maximum day).

a) Constraints at Sydney International Airport

The Federal Government's policy of limiting aircraft activity at the airport exacerbates Sydney Airport's current peak period capacity constraints.

These operating restrictions are unique to Sydney Airport and include a curfew (from 11pm to 6am), a cap on hourly movements and a regional ring fence (ensuring regional air services maintain a disproportionate amount of all movements at the airport).

Collectively these restrictions on Sydney Airport are referred to as 'artificial constraints'. They are 'artificial' because they do not reflect the airport's true capacity. Artificial constraints therefore present a significant opportunity cost to the Australian economy and the tourism industry by limiting airport and air services growth.

For example, every 747 or A380 that is denied access to Sydney Airport results in the Australian economy forgoing over $1.8 million and $2.2 million respectively.

Assuming forecast growth and the persistence of these artificial constraints, Sydney Airport will need to face the challenge of 'volume-generated' congestion. Put simply, congestion occurs when demand for flights grows but airport capacity fails to keep pace.

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[8] Based on Airports Council International (ACI) preliminary 2007 data.
[9] Based on ACI year to date figures (Jan to Feb 2008).

The continued imposition of artificial constraints by the Federal Government is therefore contributing to congestion at Sydney Airport, imposing significant costs on the travelling public and the wider economy.

Congestion imposes significant costs by increasing aircraft fuel burn, aviation greenhouse gas emissions, aircraft noise, and workload demands on air traffic management as well as reducing airline on-time performance.

The latter also imposes significant costs on travellers because delayed flights affect a passenger's capacity to transfer to other flights (e.g. connections between regional services and the rest of the network), thereby reducing Sydney's inter-connectivity.

However, while one the great strengths of Sydney Airport is its proximity to the CBD, it also represents its most significant constraint, in terms of both a relatively small 'footprint' and the regulatory regime under which it operates taking into account compatibility with surrounding residential areas. TTF recognises that the Federal Government will set artificial constraints on airport operations, such as curfews and movement caps as it balances the often-conflicting economic and social issues at hand.

b) Options for future aviation development in Sydney

The public debate over a second Sydney Airport has been around since the 1930s. There is no question Sydney needs additional aviation capacity: the question remains about exactly how the Government of the day addresses the problem and provides a solution.

TTF has identified several options for consideration by the Federal Government in relation to the challenges facing Sydney Airport. Sydney Airport must remain as the primary gateway to Sydney for domestic and international services. However, to ensure additional growth is catered for, a number of options must be considered. These options can be categorised into either supply-side or demand-side management solutions. Attachment 6 outlines each of the options, which include:

Option 1	– Do nothing / status quo
Option 2	– Federal Government removes artificial constraints on Sydney Airport
(Option 2b)	– the Federal Government creates an 'exceptional category' for low impact, regional aircraft while retaining the movement cap
Option 3	– Better utilise other Sydney Basin Airports
Option 4	– Investigate and/or develop a second and new international Airport inside or outside the Sydney Basin
Option 5	– Encourage the use of larger aircraft
Option 6	– Congestion-based landing fees are introduced

Given the importance of Sydney Airport to the economy, not taking action is simply not acceptable.

A timely decision on the future of aviation for Sydney must be made by the Federal Government as a core component of the National Aviation Policy. This decision must address the short and medium term constraints on Australia's major aviation gateway, as well as provide a longer term strategy for Sydney's aviation.

There are many in the business and aviation community who would advocate for removal of artificial constraints on Sydney Airport. By removing the curfew, this would improve Sydney's world-wide connectivity and provide greater opportunities for international airlines to and from Sydney. While this would be the preferred option, TTF acknowledges ongoing community concerns on noise management would make this decision untenable for the Federal Government.

The removal of the regional ring fence (option 2b) at Sydney Airport could also be considered by the Federal Government to provide efficiency gains at the airport. This would still allow for regional access to Sydney Airport. However, it would provide greater flexibility for the airport to manage peak periods. In addition, encouraging larger aircraft to link Sydney with regional Australia would assist in better utilisation of the airport.

Option 3 is therefore TTF's preferred model, which would see the Federal Government allow for the utilisation of the Sydney Basin Airports, increasing the supply of airport capacity in the city.

Sydney Basin Airports consist of Sydney Airport, Bankstown Airport, Camden Airport and Richmond Airforce Base. Sydney Airport would remain as the core gateway for international and domestic passenger operations, with Bankstown upgraded to become a multi-use airport for General Aviation and limited point to point passenger services (regional) with dedicated lounges and facilities. Free land transport shuttles should be provided to nearby Sydney Airport to allow for smoother on-carriage for connecting passengers to interstate and international flights.

This strategy would also see better use of Richmond Airport for freight and low cost carrier services – domestically or internationally. If a determination was made to use Richmond in this way (similar to the Avalon or eventually Gatwick model), it could be done either as a joint defence facility, or eventually sold to private owners. Obviously, it would also require Federal funding to extend road access from the M7 motorway to the airport and/or upgrade and extension of the existing Richmond rail line or future North West Metro currently being planned by the NSW Government.

The increased capacity of Richmond and Bankstown Airports would mirror the Melbourne/Avalon experience, whereby these minor airports would act in an overflow capacity allowing the primary facility (Sydney Airport) to act as an international gateway.

Richmond is a long-serving airport in the Sydney basin for the RAAF. There have been some concerns raised in the past about the redevelopment of Richmond Airport for passenger services. These concerns were raised in the Federal Government's Second Sydney Selection Program in 1985, and include the development of a south-west runway, proximity to the floodplains of the Nepean River the impact on birdlife and fog.

However, with the removal of some RAAF operations, the development of a second runway and improvements in land transport connection, Richmond could operate passenger services (low cost, regional and charter) in support of Sydney Airport. This would maximise the existing infrastructure on this site. It is also important to note that the local Hills Shire Council has already voiced support for greater use of Richmond, allowing the residents and business community of the rapidly expanding North West sector of Sydney much greater proximity to aviation services.

c) A second Sydney Airport?

Unless there are major changes to regulatory constraints on Sydney Airport, and maybe even with the use of Bankstown and Richmond to alleviate some congestion, in the longer-term, the Federal Government might need to consider options for the development of a second major airport in the Sydney basin to cope with future demand. This certainty needs to be provided within the context of the National Aviation Policy.

Evidence provided in Sydney Airport's master plan indicates the airport will be able to cope with additional capacity over the next 20 years, therefore, any decision taken by the Federal Government must be in parallel with the Government's consideration of this plan.

Regardless of the Government's decision on the need for a second airport, a clear signal needs to be provided in the short term on the future plans for the Commonwealth-owned site at Badgerys Creek. If the Federal Government decides to re-zone and sell this site, which TTF argues for, the sale proceeds should be quarantined for investment in airport and transport-related infrastructure (including land transport links between Sydney Basin Airports).

However, if the Federal Government deems the need for a second airport for Sydney, the planning for its development must be made immediately. This will incur significant economic and environmental costs and would take in excess of a decade in planning and construction.

The location of a second Sydney Airport is also critical. There are a range of options which have been publicly flagged in recent times, including Newcastle, Wilton and Warnervale. Transport linkages, including the development of a Very Fast Train, between Sydney and alternative options would need to be a priority.

ii) Brisbane Airport Corporation

TTF strongly supports the approach to planning over the last 30 years by successive local, state and federal governments to ensure a sufficient buffer zone surrounding Brisbane Airport's 24 hour operations.

This buffer zone must be retained through cooperative and committed cross-government planning in order to maintain the integrity of Brisbane as an important gateway airport to Australia.

TTF strongly supports Brisbane Airport Corporation's calls for the National Aviation Policy to protect airports from inappropriate residential development (including the preservation of buffer zones and restrictions on building heights). The Federal Government should also be able to enforce planning powers to ensure inappropriate development around airports does not compromise the existing and future safety and operational integrity of airports.

Recommendations

- **Federal Government to prioritise a decision on the future of aviation to Sydney, including a medium term and longer term solution in the National Aviation Policy.**
- **Allow for the utilisation of all Sydney Basin Airports to increase the supply of airport capacity in the city.**
- **Federal Government to undertake a feasibility study on the options to increase capacity at Richmond and Bankstown Airports.**
- **Upgrade existing land transport connections to Bankstown and Richmond Airport to ensure both are viable options for passenger traffic.**
- **Remove the regional ring fence at Sydney Airport, to provide efficiency gains.**

5. Regional and general aviation

This section relates to section 1.3 in the *Towards a National Aviation Policy Statement Issues Paper* and addresses the following question:

- What should be the basis of government and industry policy towards air services to regional and remote communities?

5.1 Importance of regional gateways

Australia's vast size means remote and regional communities are dependent on strong aviation links for their livelihoods. Many regional communities and small businesses rely on the income from tourism for survival. For the tourism industry, regional airports are the gateways beyond Australia's major cities and provide the means through which tourists can disperse and spread their tourist dollar far and wide throughout the country. The ability to attract airlines to regional airports is a major economic driver for regional communities, particularly those dependent on tourism.

The Federal Government's tourism marketing agency – Tourism Australia – is mandated as part of its Act to improve visitor dispersal and encourage tourists to travel and spend widely throughout Australia. This Federal Government strategy is highly dependent on the availability of and access to appropriate regional airport infrastructure and the ability to attract airlines to regional airports. In addition, access to regional areas needs to be considered in the broader context of the Government's policy on regional development. The Federal Government therefore has a major role to play in ensuring adequate regional airport infrastructure.

i) Impediments for regional airports

Regional airports face major cost disadvantages due to regulated Federal Government charges associated with customs, immigration, quarantine, firefighting and security charges. These costs cannot be offset by the potential incentives regional airports and various levels of government provide to attract new carriers, therefore limiting access to regional Australia.

In September 2005, the Federal Government commissioned the Centre for Asia Pacific Aviation (CAPA) to undertake a study into *Air travel impediments to regional dispersal of international visitors*. The analysis and findings of the CAPA report remain relevant today in light of the BITRE's publication of air passenger movements through capital city airports.

In 2005/06, the BITRE reported that capital city airports (Adelaide, Brisbane, Canberra, Darwin, Hobart, Melbourne, Perth and Sydney) accounted for over 80 percent of all air passenger movements in Australia, while all other airports accounted for about 20 percent.

By 2025/26, BITRE anticipates that capital city airports will increase their share of air passenger movements to 83 percent of Australia's total, while other airports' share is predicted to fall by 2 percent to 17 percent.

The 2005 Federal Government report into regional dispersal concluded that:

> *"There is limited tourist dispersal beyond the major gateways, destinations such as Cairns and Gold Coast which have direct international services and regions which have attractions of 'special' visitor interest such as Ayers Rock…*
>
> *The markets with the greatest propensity for dispersal are those whose visitors have the longest stay in Australia. These include the longer haul European and North American markets. By contrast, visitors from markets in Asia, in particular, tend to stay for reasonably short periods which restricts the potential for dispersal."*[10]

Key barriers identified in the report which affect dispersal relate to airline issues such as:

- High concentration of services on major gateways;
- Lack of direct services to other entry points; and
- Implications of low cost airline development.[11]

There are also significant barriers to gateway development including:

- High border control costs;
- High security costs; and
- Barriers to investing in adequate facilities.[12]

Recommendations

- **The Federal Government, through Tourism Australia and the Tourism Forecasting Committee, identifies targets for regional dispersal of international visitors. These targets should be used to identify regional airports that need to be upgraded or that need additional immigration, security, customs, quarantine and air traffic control services to meet forecast demand.**
- **The Federal Government to identify and offer financial incentives to encourage the development of regional airports as recommended in the Centre for Asia Pacific Aviation (CAPA) study** *Air travel impediments to regional dispersal of international visitor***s, but must ensure that this does not come at the expense of the wider aviation network.**

5.2 General aviation

Under the Federal Airports Corporation (FAC) the majority of Australia's general aviation airports ran at a loss. However, general aviation airports have benefited from

[10] CAPA (2005) "Air travel impediments to regional dispersal of international visitors" p.13.
[11] ibid, pg.2.
[12] Op.cit. CAPA (2005) pg.2.

privatisation[13], as it has provided the means for capital development and investment. While the Federal Government should not subsidise all general aviation airports, the National Aviation Policy needs to support the on-going growth of General Aviation Airport Procedure (GAAP) airports such as Bankstown Airport. TTF made a submission to the Federal Government's General Aviation (GA) Action Agenda in December 2007 highlighting this point.

It follows that denying GAAP airports, such as Bankstown, the ability to grow (especially in relation to increased regular passenger transport services), will significantly put at risk the sustainability of these airports. The opportunities presented to GAAP airports are not visionary but here and now.

This is best demonstrated by Bankstown Airport[14], which has seen investment of more than $30 million in the past 18 months, with a further $200 million to be invested in the coming 18 months. The economic benefits of this forecast expenditure are significant.

It is estimated that Bankstown Airport contributes over $700 million per annum to the NSW economy, and is the leading contributor to the Western Sydney economy, generating over 6,000 jobs (both directly and indirectly).

TTF strongly supports the need for the National Aviation Policy to provide an environment that will allow for the growth of Bankstown Airport. Its location gives it a unique opportunity to meet forecast demand for air services to Sydney in the event Sydney Airport reaches full capacity. The opportunities for Bankstown Airport and the surrounding region include:

- Operating air services up to 12 movements per day of smaller regional aircraft (up to Code 3C) as approved under Bankstown Airport's current master plan;
- Utilising Bankstown Airport in the context of the options proposed in this submission in relation to the challenges facing Sydney Airport. Bankstown Airport has the potential to act as a hub for services to Regional NSW; and
- Growing the economic prosperity of Western Sydney through expanded airport facilities and increased air service activity. This includes the introduction of limited passenger services.

Recommendation

- **The Federal Government provides a policy framework that supports the growth and development of GAAP airports such as Bankstown Airport.**

[13] Tourism & Transport Forum, *Assessing the Impact of Airport Privatisation Final Report, 2008*
[14] Bankstown Airport (2008)

6. Domestic services

This section relates to section 1.2 in the *Towards a National Aviation Policy Statement Issues Paper* and addresses the following questions:

- Are there any constraints on the ability of Australian-owned airlines to remain competitive with foreign-owned airlines in the Australian market?

- Do the existing criteria strike the right balance between allowing Australian airlines to access global investment markets and promoting an Australian-based aviation industry?

6.1 Removing foreign ownership restrictions

The tourism industry supports the liberalisation of international air services and considers that access to Australia can be improved while also ensuring sustainable competition.

TTF therefore supports progress towards achieving competitive neutrality in international air services, and encourages the Federal Government to continue its efforts in this regard.

Under the Qantas Sale Act 1992, total foreign ownership limits are set at 49 percent. Within this limit no more than 35 percent may be owned by foreign airlines, with no more than 25 percent owned by any one party.

This foreign ownership limit raises Qantas' costs by artificially restricting demand for Qantas shares and lowering its share price. The current limit therefore puts Qantas at a competitive disadvantage as it contributes to higher costs that hamper Qantas' ability to invest in new aircraft.

The restrictions on Qantas' ability to access foreign capital in one of the most capital-intensive industries in the world make little sense, particularly when attitudes towards airline designation are far more relaxed in today's regulatory environment.

TTF believes foreign ownership restrictions can be removed without risking challenges to Qantas' designation or compromising Australian control of Qantas.

TTF therefore strongly supports the removal of foreign ownership restrictions under the Qantas Sale Act 1992.

Recommendation

- **The Federal Government remove foreign ownership restrictions under the Qantas Sale Act 1992.**

7. Aviation emissions and climate change

This section relates to section 4.1 in the *Towards a National Aviation Policy Statement Issues Paper* and addresses the following:

- What practical steps can the aviation industry take right now to reduce greenhouse gas emissions? Are carbon offset schemes enough?

- What measures should the aviation industry be taking in the short-medium term to reduce emissions, such as clean engine technology and clean aviation fuels?

7.1 Climate change, tourism and aviation

Climate change is one of the most significant long-term challenges facing the Australian economy and, within it, the tourism and aviation industries. Major reports from the Intergovernmental Panel on Climate Change (IPCC) and by the economist Sir Nicholas Stern have quantified the economic risk of a failure to act on climate change. Through a range of political, economic and social impacts climate change has the potential to increase significantly the costs of travel to and within Australia and to affect demand patterns in some of Australia's key tourism markets.

Given the symbiotic relationship between tourism and aviation in Australia, both industries have a strong interest in working closely together with government to determine policy settings and strategic measures that will either reduce or mitigate aviation's greenhouse gas emissions.

Reducing emissions is in the fundamental business interests of the aviation industry. With Australia set to move to an emissions trading scheme by 2010, it is vital the industry puts mechanisms in place to ensure its readiness to operate in a carbon-constrained economy. The industry has already taken significant steps in this direction, and must continue to work cohesively on developing an effective mix of strategies to minimise its carbon footprint. There is no 'magic bullet' solution – a combination of government policy and industry action will be required, and all parties will have to be mindful of international, as well as national, policies, frameworks and obligations.

Reducing emissions is also a corporate social responsibility of the aviation industry. Aviation accounts for 1.6 percent of global greenhouse gas emissions, and while this contribution is relatively small compared to that of other industries, growing consumer awareness of and government attention to the environmental impacts of air travel mean aviation must clearly demonstrate action in reducing emissions. The aviation industry is a 'big target' for hostile environmental advocacy, and governments in Europe (particularly the UK Government) have come under strong pressure from environmental groups to introduce punitive taxes on air travel.

The introduction of such measures in Australia would not be consistent with a sustainable, long-term environmental policy for aviation, and it is therefore vital that the National Aviation Policy includes clear statements of what the industry must undertake in the short, medium and long-term to reduce greenhouse gas emissions.

7.2 The aviation industry's response to climate change

Collectively, the aviation industry has acted responsibly in responding to climate change, and industry action to date has been significant.

All segments of the industry are working towards minimising their environmental impact including aircraft and engine manufacturers, airlines and airports (see Attachment 7).

Today's aircraft are 70 percent more fuel efficient than those of 40 years ago. Under the Advisory Council for Aerospace Research in Europe (ACARE), industry aims to halve carbon dioxide emissions by 2020 through engine and airframe design advances (as well as air traffic management). Over the next five to ten years, new generation aircraft such as the Airbus A380 and the Boeing 787 Dreamliner will replace older, more polluting aircraft such as the Boeing 747.

Qantas is set to introduce both the A380 and the B787 on long-haul routes, following Singapore Airlines' launch last year of the A380 on services to Australia. Emirates has made the biggest order for A380s of any airline, and has committed to introduce the aircraft on its Australian routes.

Both Qantas and Virgin Blue have introduced carbon offset schemes, enabling travellers to contribute to mitigating a proportion of the emissions generated by their flight.

On air traffic management, Airservices Australia is committed to investigating efficiency measures to reduce the fuel burn and emissions generated by aircraft on approach to and takeoff from Australian airports.

7.3 Measures to address climate change

TTF has identified a range of measures that should be part of an integrated industry response to climate change (Attachment 7 provides additional detail).

i) Inclusion in an Australian emissions trading scheme

Aviation should be included in an Australian emissions trading scheme (ETS) on an equitable basis with other industries. The exclusion of certain industries, such as coal mining, from the ETS would undermine the integrity of the scheme and place trade-exposed industries such as tourism and aviation at an artificial disadvantage.

ii) Technological advances

Australian airlines and international airlines serving Australia will increasingly phase in new, more fuel efficient aircraft such as the Airbus A380 and Boeing 787 Dreamliner, and, accordingly, have set stringent targets for emissions reductions. Qantas, for example, is aiming to reduce emissions by 20 percent through fleet replacement.

The introduction of more fuel-efficient aircraft will ensure that increases in passenger and aircraft movements are associated with much lower increases in emissions.

iii) Aircraft depreciation

TTF strongly supports accelerated aircraft depreciation in order to encourage the use of newer, more fuel-efficient aircraft.

Currently, Australia's aircraft depreciation rules allow airlines to write-off the value of aircraft over 10 years. However, Australia's regional competitors are able to update their fleet more regularly. Singapore, for example, has a write-off period of three years, while Hong Kong has a write-off period of five years.

Issues of competitive neutrality notwithstanding, accelerated aircraft depreciation would provide financial incentives for Australian carriers to reinvest in new aircraft and reduce the cost of existing planned acquisitions.

An accelerated depreciation regime would lessen the cost to airlines of meeting emissions targets under an emissions trading scheme.

iv) Air traffic management

Changes in air traffic management procedures can offer significant environmental benefits. The IPCC estimates a 12 percent inefficiency in global air traffic management, indicating that there are significant opportunities to reduce emissions through streamlined procedures.

Airservices Australia, which provides air traffic control management services to the aviation industry, is committed under an Environmental Policy to "proactively pursuing air traffic management initiatives, including procedures and technologies, to reduce fuel burn and greenhouse gas emissions." These initiatives include pre-departure tactical management, continuous descent approaches, Required Navigation Performance procedures (to avoid terrain and weather constraints) and Flexible Tracks (to take advantage of wind conditions).

TTF strongly supports the work being undertaken by Airservices Australia on emissions-reduction measures, and urges the Government to enshrine the corporation's strategic objectives in the National Aviation Policy Statement, in the context of the broader industry strategy on climate change.

v) Aircraft noise

TTF is aware that there are considerable sensitivities regarding the acceptable level of noise generated by aircraft movements around residential areas, and supports the commitment of Australian airports to incorporate residents' interests in environmental management programs.

However, we would underline the need to balance policy on aircraft noise with policy on aviation emissions, as the two can be contradictory (see Attachment 9 Cairns Airport case study). Air traffic management can be a key means of reducing emissions from aircraft on approach or takeoff, but streamlining air traffic controls may in some cases also mean exposing nearby residents to higher levels of noise. The Government must be cognisant of the potential tension between the twin objectives of reducing aviation emissions and managing aircraft noise.

vi) Carbon offset schemes

Carbon offset schemes have a valuable role in the mix of aviation responses to climate change. If properly structured and implemented, offset schemes can help allow for the growth of aviation capacity without a corresponding increase in emissions. Offset schemes also have a relatively low cost compared to more orthodox measures such as increases to fuel surcharges.

However, TTF is acutely aware of the need for such schemes to be robust and transparent if they are to avoid the accusation of 'greenwash'. Airlines must clearly demonstrate the action they are taking and its effectiveness in offsetting emissions.

TTF has previously called for the Federal Government to establish a formal accreditation program for carbon offset schemes, and we would reiterate this call in the context of a National Aviation Policy. There is also scope for the Government's role to extend beyond accreditation to the promotion of offset schemes to consumers.

vii) Taxation

It has been suggested by some pressure groups that a 'green tax' on aviation fuel should be introduced in Australia, in order to curb demand for air travel and thereby reduce aviation emissions. The UK Government has already committed to such a policy, and in late 2009 will introduce a sliding scale of taxes on international flights from the UK based on the size of aircraft and the distance they are scheduled to fly.

TTF believes that a similar tax on Australian aviation would represent an ad hoc, unsophisticated and counter-productive response to the complex challenges of climate change.

Research by Australia's pre-eminent academic in tourism economics, Professor Peter Forsyth (Monash University), has demonstrated that a tax on aviation fuel would not reduce emissions in the long-term.

Even if such a tax were capable of discouraging air travel to the extent that airlines would be forced to cut services and thereby emissions, it would have the corresponding effect of encouraging other forms of travel, such as car, resulting in no decrease in overall emissions. Furthermore, once an emissions trading scheme was introduced, any tax on aviation fuel would become obsolete. A reduction in aviation emissions, under an emission trading scheme, would simply free up permits for other industries, and overall emissions would remain at their capped level. In both scenarios, a tax on aviation fuel would add to costs without reducing overall emissions.

Taxing aviation as a means specifically of reducing greenhouse gas emissions would run counter to the Government's policy of adopting a broad, national approach to reducing emissions generated by Australian industry.

Recommendations

- **The aviation industry should be included in an Australian emissions trading scheme on an equitable basis with other industries.**

- **The Federal Government should investigate the environmental benefits of introducing an accelerated depreciation regime for Australian airlines.**

- **The Federal Government continues to provide a strong mandate for Airservices Australia to develop efficiency measures to reduce fuel burn and greenhouse gas emissions.**

- **The Federal government establishes a formal accreditation program for carbon offset schemes.**

- **The Federal Government should not introduce a 'green tax' on aviation.**

8. Taxation

While taxation was not specifically covered within the issues paper, there are a number of areas which need to be considered in the development of a National Aviation Policy Statement.

The Australian tourism industry is heavily taxed. Total net tourism taxation in Australia was $6922M in 2003/04, equivalent to 20 percent of total tourism GDP or 9 percent of total tourism expenditure. Over $1bn in GST is paid by international tourism alone, collecting over $4490M in government revenue, while other Federal taxes raise about $1797M (2003/04).

Taxes on tourism exports continue to strongly outweigh subsidies and assistance for export promotion. Tourism remains one of only two export industries which continues to be subject to the GST (the other is education).

i) Passenger Movement Charge

Further exacerbating the significant impost on tourism exports was the Rudd Government's first Budget which announced in May increases to the Passenger Movement Charge (from $38 to $47) and visa application fees (from $75 to $100).

Attachment 8 demonstrates the high cost of entry into Australia compared to other destinations.

In TTF's view, these increases combined with already high levels of taxation will reduce Australia's international competitiveness as a tourist destination, by negatively impacting air travel demand.

Attachment 10 provides an outline of TTF's recent submission, rejecting the increases to the PMC and visa charges, to the Legal and Constitutional Affairs Senate Standing Committee's review of the *Passenger Movement Charge Amendment Bill 2008*.

ii) Stamp duty on airline insurance

Stamp duty on airline insurance is a major cost imposition for the tourism industry and is effectively another tax on air travel. TTF recently commissioned a report into the *Economic Impacts of Aviation Stamp Duties*. The report was undertaken by the Sustainable Tourism Cooperative Research Centre. Authors Forsyth (Monash), Dwyer and Spurr (UNSW) are considered to be pre-eminent academics in tourism economics both in Australia and abroad.

The key findings of the report demonstrate that:

- Stamp duty on airline insurance is effectively a tax on air travel;
- This tax will reduce inbound and outbound tourism expenditure, although the impact of the tax will be greater in reducing inbound tourism;

- On balance, the net effect of increased tax revenue and reduced tourism expenditure will be negative;
- The tax will therefore lower Gross State Product;
- States and territories must determine whether any increases in tax revenue are worth the cost in reduced economic activity;
- Retaliation by other countries whose airlines suffer as a result of states and territories imposing the tax remains a real possibility; and
- These findings do not factor in the costs associated with retaliation, which would only worsen the impact of the tax for Australia and the states and territories.

Stamp duty on insurance was not one of the taxes meant to be replaced by the GST as part of the 1999 *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. However, the Royal Commission into the failure of HIH Insurance Group did recommend states and territories abolish stamp duty on general insurance products.

TTF therefore recommends the Federal Government intervene, via the Council of Australian Governments (COAG), and mandate the removal of stamp duty on airline insurance imposed by states and territories.

Recommendations

- **That the Federal Government undertakes modeling on the cumulative impact of government charges on demand for air travel to Australia.**
- **That the Federal Government provides greater transparency in the Passenger Movement Charge (PMC) and the associated investment by the Government in airport security.**
- **In the instance of future changes to PMC, that the Federal Government consults industry (including the aviation and tourism sector) prior to introducing and changes.**
- **The Federal Government should intervene, via the Council of Australian Governments (COAG), and mandate the removal of stamp duty on airline insurance imposed by states and territories.**

Attachment 1

The contribution of airports and air services to Australia's economy

Growth in demand for air travel (both business and leisure) has been considerable over the past decade at around four percent per year. At that level of growth, it is expanding faster than the economy as a whole.

Given the importance of airports and air services growth to tourism, TTF commissioned a report assessing their economic impact, undertaken by consulting firm URS.

The report estimated that the level of turnover (gross output) for airport and air service activity in 2005-06 was more than $43 billion. If that is growing at four percent annually, the level of airport and air services growth would be increasing by $1.7 billion per year.

The economic benefits of this growth are significant. TTF's report estimated that airport and air services activity would generate around:

- $4.7 billion of gross output;
- $2.15 billion of value added; and
- $1.18 billion of wage and salary income to 24,000 workers for each $1.7 billion in annual growth.

TTF's report estimates airport and air service activity will generate around $80 billion of gross output by 2020 – almost doubling the present level. This makes airport and air services a leading growth sector with an increasing share of the national economy.

The report was submitted to the Hon Anthony Albanese MP, Minister for Infrastructure, Transport, Regional Development and Local Government on 8 April, two days in advance of the announcement "Towards a National Aviation Policy Statement".

A full copy of the report is available on-line and can be downloaded at:

http://www.ttf.org.au/

Attachment 2

Excerpt from *Project X*

Tourism & Transport Forum (TTF) - Project X

Aviation

	Available Seats			Load factors		
Country of Service	Jan to Nov 2006	Jan to Nov 2007	% Change	Jan to Nov 2006	Jan to Nov 2007	%pt Change
New Zealand	3,447,012	3,206,155	-7.0%	68	76	7
Singapore	2,040,616	2,034,686	-0.3%	80	85	4
USA	1,215,964	1,292,454	6.3%	78	80	2
Japan	1,097,609	999,179	-9.0%	72	74	2
Hong Kong	1,003,009	986,406	-1.7%	81	84	3
UK	955,114	874,247	-8.5%	81	86	5
United Arab Emirates	760,944	912,775	20.0%	69	69	0
Malaysia	748,747	707,300	-5.5%	72	81	9
Thailand	490,568	712,677	45.3%	74	82	8
Fiji	394,716	367,872	-6.8%	67	69	2
China	390,016	405,554	4.0%	77	79	3
Indonesia	333,397	399,187	19.7%	65	76	10
Korea	281,946	316,400	12.2%	75	74	-1
South Africa	163,950	168,665	2.9%	76	84	8
Austria	155,179	33,119	-78.7%	72	78	6
Papua New Guinea	154,597	94,730	-38.7%	49	55	6
Germany	149,618	149,600	0.0%	90	94	4
Total	14,956,862	14,849,240	-0.7%	74	78	5

In the period January to November 2007, capacity in and out of Australia decreased by approximately 1% compared with the same period the previous year.

International load factors during this period grew from 74% to 78%, and load factors on some of the most important routes such as the USA, Singapore, Hong Kong, UAE, Thailand, Malaysia and China reached or exceeded 80%. At this level, some inbound business is constrained as individual travelers and groups are limited both in the availability and price of flights available to them.

Little new international capacity is expected until the second half of the year at the earliest, so these constraints will continue to restrict inbound tourism efforts.

In our discussions with the US travel trade dealing with Australia, all of the interviewees spoke of the difficulty of winning business due to the lack of seats available.

Source: Bureau of Infrastructure, Transport and Regional Economics

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Tourism & Transport Forum (TTF) - Project X

Aviation (cont.)

One US operator indicated that on the Australian route recently the amount of business that it was losing due to lack of available seats was double the rate for other markets.

In order to compare the competitiveness of Australia versus other destinations from key source markets, we asked TA to provide information on the comparison between flights from London, LA and Tokyo to Australia and other key destinations in 2002 and 2007.

We wanted to test whether the cost of getting to Australian had improved or worsened versus the cost of getting to these other destinations in recent years.

Due to confidentiality, TA was unable to provide figures, but offered the following commentary:

London- Sydney
Tourism Australia considers that London-Singapore-Sydney discount economy fares have increased in the last five years more than airfares to Bangkok, Dubai, Honolulu and Shanghai (which all fell in this period). This may reflect that Sydney airfares from London began the period at a low level. This conclusion is supported by comparisons of these airfares on a cents/km basis. Fares on the London-Singapore-Sydney route remain slightly lower on a per km basis than London-Dubai and London-Shanghai, which would be expected as fares normally fall on cents/km basis with distance, although the Sydney route has an extra stop which adds costs. However, in the last three years the long haul route from London to Sydney has been most affected by rising fuel prices and the associated fuel surcharges that are added to the cost of a flight. As a result, Australia has become relatively more expensive to travel to (especially as fares to key competitor destinations decline) from London.

Los Angeles – Sydney
While discount economy fares on the Los Angeles- Sydney route have increased in the last five years, they haven't increased as much as fares from Los Angeles to London, Rome, Bangkok and Rio. All the compared routes are non stop routes and the normal expectation would be that the longest route would have the lowest airfares and costs on a cents/km basis. In contrast, Sydney is in the middle of these long haul routes on a cents/km basis.

Tokyo-Sydney
Discount economy fares on Tokyo-Sydney route have increased in the last five years, broadly in line with fare increases on other routes from Tokyo. However, Sydney is the most expensive of the medium haul routes compared from Tokyo. In previous years, the Japan service was classed as "the Golden Route" so airfares probably started from a comparatively high level.

However, in recent years falling demand due in part to the dramatic weakening of the Japanese Yen against the Australian dollar has brought capacity declines, while older and larger aircraft have commonly been replaced by smaller and more comfortable aircraft.

Tourism Australia forecasts an upsurge of aircraft deliveries from the third quarter of 2008 which it estimates will increase international seat capacity to Australia by around 6 per cent in 2008 and by around 14 per cent in 2009. TA predicts large increases in capacity between 200,000 and 800,000 to and from the Middle East, the USA, China, India, Hong Kong and New Zealand.

From our interviews with people from the aviation sector, it is accepted that recent constraints in capacity to Australia have been heavily influenced by the late delivery of new aircraft.

Aviation (cont.)

Also, they generally did not feel that regulatory issues were the only constraints on capacity. All expressed the view that this subject needed to be dealt with on a route by route basis and other factors such as availability of aircraft, cost of operations and alternative destinations were also important determinants in the decision to fly to Australia.

Other interviewees felt that the Federal Government's stated air services policy of recognising open skies 'as an aspirational goal to be sought on a case-by-case basis' was to some extent a 'cop-out' and that Tourism Australia should play a more strategic role in working with the states in building business cases and influencing airlines to fly to Australia.

While there seems to be some relief coming in the form of more and bigger aircraft being delivered in the next year, many in the industry will not be happy until a more liberal regime is introduced.

The proposed National Aviation Strategy should address these issues, and it is vital that tourism interests are integrated into this process. From an international perspective, tourism is both the biggest driver of demand for aviation and the biggest benefactor from its services. A national tourism strategy should be linked with the national aviation strategy.

Any national aviation strategy needs to address capacity issues at Sydney Airport which is looming as being one of the next greatest infrastructure challenges and constraints facing tourism. This is one area where a coping strategy will not suffice in the future.

Attachment 3

The contribution of tourism to Australia's economy

The tourism industry is critical to Australia's economy. According to Tourism Satellite Account data from the Australian Bureau of Statistics, the tourism industry was worth $85 billion to the Australian economy during 2006/07.

The tourism industry contributes about 3.9 percent of Australia's Gross Domestic Product, over $22 billion of export earnings (more than 10 percent of Australia's exports) and tourism spending directly employs 464,500 people.

The importance of tourism to the national economy is not likely to decline in the medium term - especially in a post-resource boom scenario under which service economies will become increasingly important. Tourism adds critical diversification to Australia's balance of payments. When commodity prices fall, this places pressure on the exchange rate making Australia more attractive to international visitors and boosting A$ revenues from inbound tourism. It thus has a strong counter-cyclical effect to variations in Australia's commodity exports (Dwyer, Forsyth and Spurr).

Research by Australia's leading academics in tourism economics (Dwyer, Forsyth and Spurr representing the CRC for Sustainable Tourism) demonstrates that a fall in tourism's contribution to economic activity will result in a permanent cost to the Australian economy.

ABS research has established that Australia's tourism industry contributes more gross value-added to the economy than all of our agricultural, forestry and fishing industries combined. In the most recent statistics available, the ABS found that the tourism industry contributed $31.3 billion in gross value ($66.6 billion in gross output) to the national economy during the 2005/06 financial year compared to a total $27.2 billion for the agricultural, forestry and fishing industries.

Similarly, TTF estimates that total employment in regional Australia is higher from tourism than the sum of the agricultural, forestry and fishing industries. This reflects the higher labour-intensity of tourism and that over 50 percent of total visitor nights in Australia are spent outside Australia's capital cities.

Attachment 4

International and domestic services forecasts to 2015

Qantas Group aircraft orders and options of the larger wide body aircraft to 2015 are sufficient to allow a doubling of seat capacity even if all current B747s and B767s are retired or sold.

With 21 A380s and around 85 B787s employed in 2015 on Qantas and Jetstar international services this promises around 9 million international seat arrivals to Australia. This is double the current group seat arrivals to Australia of around 4.5 million per annum and is sufficient to increase total inbound seats into Australia by 30 percent by 2015.

V Australia/Virgin Blue has also entered into significant aircraft purchases. V Australia has 13 B777-300ER aircraft on order/option, promising significant new competitive pressure on Qantas and other international services. V Australia in 2015 is expected to be flying around 1.3 million seats per annum, equivalent to growth in total inbound seats to Australia of around 9 percent or around 16 percent of the Qantas Group international capacity.

These Australian airline aircraft purchases have proved inspired commercial decisions as the new aircraft ordered promise very significant operating cost (fuel and maintenance) savings. As few other airlines have ordered as aggressively, these orders also promise competitive advantage for our airlines, as the aircraft production order book for some long haul aircraft is now full to between 2013 and 2017.

Between Qantas Group and V Australia, TTF expects growth in international seat capacity to Australia to 2015 of 6 million additional seats or 40 percent compared to 2007.

Paralleling the Australian operating airline's decisions on aircraft purchases, they have also moved quickly to embrace the low cost airline model that delivers significantly enhanced operating economics and guarantees higher levels of passenger and aircraft arrivals in coming years. For example, Australia has the highest level of low cost carrier penetration of any major domestic aviation market in the world.

The remarkable growth expected for Jetstar's international services using B787 aircraft highlights the combination of these more general trends.

The growth of Tiger, Air Asia and Lion Air services from closer international destinations by 2015 is expected to add a further 1.5 million seats or 10 percent to international seat capacity into Australia.

Stronger growth is also expected for the Middle East carriers led by Emirates, Etihad and Qatar as well as AirAsia X, and this promises a net addition of perhaps 2 million inbound international seats by 2015.

Overall, TTF anticipates growth in total international seats to Australia between 2007 and 2015 of 9.5 million or 65 percent. This represents compound growth of 6 percent per annum in international seats into Australia.

From 2007 to 2011 faster growth averaging 7.5 percent per annum in international seats to Australia is expected. This reflects the first deliveries of delayed A380s and B787s along with the rapid build up in capacity for Emirates, Etihad, AirAsia X, Tiger and Lion Air.

In 2011, TTF expects 20 million inbound international seats to Australia, or 5 million or one third more than in 2007. In contrast, the Tourism Forecasting Committee in November 2007 was predicting only 25 percent growth in arriving passengers, suggesting load factors will fall slightly from their current record levels.

Domestic aviation is also facing growth in the next few years.

Major aircraft purchases by Qantas of 737s and 787s, Jetstar of A320s and A321s, Virgin Blue of 737s and Embraers, and Tiger of A320s and A319s promise very rapid growth in domestic aviation seat capacity. In comparison, the recent reductions in Qantas group domestic seat capacity of the oldest and least reliable domestic aircraft are comparatively small.

TTF estimates that domestic seat capacity even after the recent Qantas cuts is expected to increase around 11 percent by 2009, with growth after this heavily influenced by the progress of Tiger and potential entry of Lion Air Australia.

Attachment 5

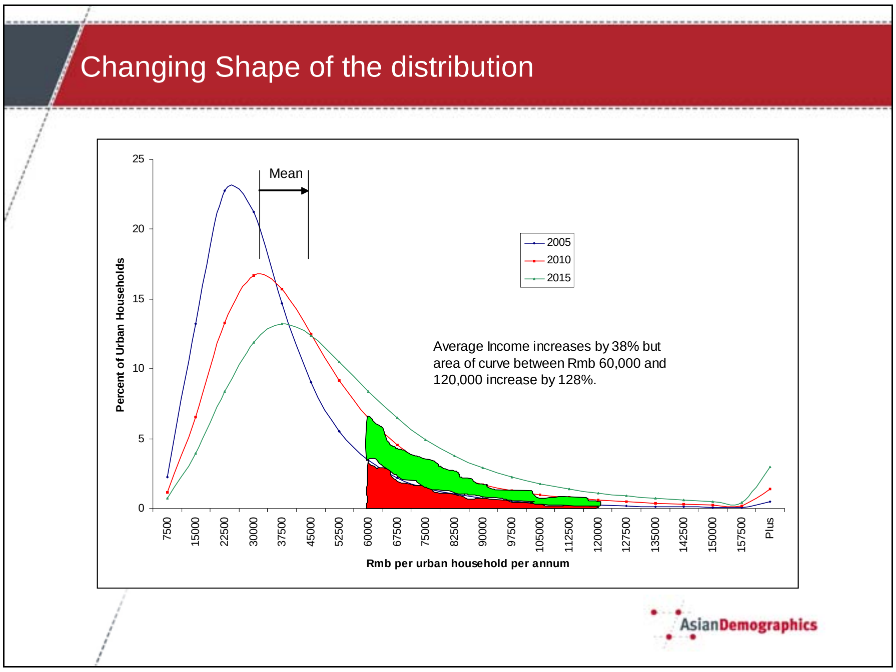
Focusing aviation policy on a rapidly growing Asian middle class

In the period to 2015, TTF anticipates dramatic growth in the number of middle class households in Asia, led by China, India, Vietnam and Indonesia. These households will be looking for international travel experiences, including to comparatively close, friendly, safe and English-speaking destinations.

By 2015, TTF foresees an Australian economy less reliant on commodity exports due to falling resources prices, as global resource production increases and as environmental issues reduce average resource use within total manufacturing sector output. In this scenario, the growing middle class consumption of Asian households becomes the new driver of Australian production. Industries as diverse as education, beef and dairy, as well as tourism, stand to be major growth sectors from demands of the rising Asian middle class as the Australian economy also adjusts to a lower A$.

As GDP increases by between 7 and 10 percent per annum in markets like China, India, Indonesia and Vietnam, the number of consumers with household income above a threshold level increases far more quickly. While the following analysis is for China, it is also applicable to countries like India and Vietnam with similarly left-skewed income distributions which are enjoying strong economic growth.

What is particularly interesting is to see what Asian Demographics forecast will occur to the Chinese income distribution with an assumption of 38 percent growth in real average incomes between 2005 and 2010.



Asian Demographics predicts that if average Chinese household urban incomes increase by 38 percent the share of urban Chinese households with incomes between Rmb 60,000 and Rmb 120,000 increases by 128percent.

Extending this analysis to 2015 would presumably see very dramatic growth in the number of Chinese urban middle class households.

Looking more narrowly at aviation/tourism opportunities – the increasing spending influence of the Chinese 'young emperors' suggests that Australia might focus more of its appeal to middle class families with primary to junior high school aged children. Australia can readily offer a different, interesting, safe, English speaking and friendly experience well placed to be the first international destination outside Asia for these family groups.

Australia's unique aspects of the landscape, flora and fauna and indigenous culture all have pulling power for this market segment and involve extensive time in regional Australia.

Attachment 6

Options for Sydney Airport and Federal Government aviation policy

Supply-side solutions

Option 1 – Do nothing

Under this option:

- The Australia Government maintains artificial constraints on Sydney Airport;
- Sydney Airport undertakes its planned investment as part of its current master plan which includes new terminal extensions, new taxiways, new aircraft parking areas, new car parking spaces and a new freight terminal; and
- Allows for the natural growth in aircraft size to improve passenger throughput.

Option 2 – Federal Government removes artificial constraints on Sydney Airport

Under this option:

- The Federal Government removes artificial constraints on Sydney Airport including the curfew (from 11pm to 6am), the cap on hourly movements and the regional ring fence; and
- Also allows for the natural growth in aircraft size to improve passenger throughput.

Option 2b – the Federal Government creates on 'exceptional category' for low impact, regional aircraft while retaining the movement cap

Under this option:

- If the current cap on hourly aircraft movements remains, the Federal Government creates an exceptional category for low-impact, quiet, regional aircraft which are not included in the cap on movements.
- This would ensure regional access in peak periods while enabling larger regional aircraft and jets to make more use of the peak hour periods.

Option 3 – Utilise the Sydney Basin Airports

Under this option:

- The Federal Government allows for the utilisation of the Sydney Basin Airports consisting of Sydney Airport, Bankstown Airport, Camden Airport and Richmond Airport as follows:
    - Sydney Airport for gateway passenger operations;
    - Richmond Airport for Defence, dedicated freighter and medium and heavy maintenance[15];

[15] Over 20 per cent of freight movements at Sydney Airport are carried by dedicated freight operations (independent of passenger aircraft).

  - o Bankstown Airport as a multi use airport, for General Aviation and limited point to point passenger services; and
  - o Camden Airport as light sport and recreation aviation hub.

- In combination, the Sydney Basin Airports would provide an increase in the supply of airport capacity, and improve the allocative efficiency of air services growth in the region (putting existing airport resources to their best use, at minimum cost).

Option 4 – Federal Government investigates a second Sydney Airport

Under this option:
- The Federal Government investigates the development of a second Sydney Airport.
- This option would incur significant economic and environmental costs and would not resolve current peak period capacity constraints over the short to medium term.
- Development of a second Sydney Airport would be expected to be more than a decade in the making.

Demand-side management solutions
Demand-side management works by rationing runway capacity amongst competing airlines seeking access, given that available capacity cannot meet all needs.

Option 5 – Encourage the use of larger aircraft

Under this option:
- The use of larger aircraft at Sydney Airport would increase throughput of passengers.
- Use of larger aircraft at Sydney Airport could be provided for by:
- Establishing a minimum aircraft size; and/or
- Allowing for the natural development of the 'hub and spoke' system whereby small feeder regional aircraft access airports with connecting services to Sydney Airport.

Option 6 – Congestion based landing fees

Under this option:
- The price mechanism is used to bring supply and demand into equilibrium.
- A congestion based landing fee would allocate slots at Sydney Airport based on the willingness to pay of aircraft operators.
- Aircraft operators that valued slots in periods of strong demand most highly would use them.
- Regional services could choose off-peak slots or the 'hub and spoke' system.

Attachment 7

Aviation industry action on climate change

Aircraft and Engine Manufacturers
Recognising that aviation technology is rapidly advancing in the direction of fuel cost savings, the aviation growth in passenger and aircraft movements identified in this report is associated with much lower increases in growth of carbon emissions.

Aircraft manufacturers, including Boeing, have made tremendous progress in reducing the environmental effects of their aircraft. Today's next-generation jet aircraft have a 30dB noise improvement and consume 70 percent less fuel and emit less CO2 compared to early jet aircraft.

Next-generation aircraft are significantly more environmentally friendly than their predecessors through advanced airframe design. The Boeing 787, for example, will consume 25 percent less fuel than its predecessor, the Boeing 767.

By 2026, the fuel burn of the average world fleet is expected to be at three litres per 100 passenger kilometres, or what the A380 already delivers today.

Engine manufacturers, including Rolls-Royce, have also made tremendous progress in reducing their environmental impact. Rolls Royce's Trent 1000 engine, for example, is 15 percent more fuel efficient than its Trent 800 series (typically used on Boeing 777s).

Rolls-Royce continues to heavily invest in research with an aim to further reduce its environmental impact. Two-thirds of Rolls-Royce's annual $1.6 billion research and technology budget is dedicated to this – a phenomenal commitment.

Alternative Fuels
Second generation biofuels have the real possibility of reducing aviation emissions. They are more efficient and sustainable energy sources than first generation biofuels. Air New Zealand plans to test one of its Boeing aircraft with biofuel later this year in conjunction with Boeing and Rolls-Royce.

Qatar Airways undertook the first flight using synthetic liquid fuel in February 2008. The test flight was undertaken in conjunction with Shell and Rolls-Royce.

Air Traffic Management
Airservices Australia is working to address inefficiencies in the current air traffic management system by attempting to restrict aircraft delays to the ground, introducing more direct flight paths using state-of-the-art navigation technology and implementing flexible tracking.

Airlines

Airlines, including Jetstar, Qantas and Virgin Blue, are investing substantial amounts of capital in new next-generation aircraft that will be significantly more environmentally friendly than their predecessors.

Qantas aims to reduce its CO_2 emissions by 2 million tonnes and improve fuel efficiency by 7.5 percent by 2011. Qantas' fuel efficiency program has already produced fuel consumption reductions equivalent to removing 30,000 cars from Australia's roads each year.

Jetstar, Qantas and Virgin Blue have also implemented carbon offset schemes. In addition to the offering to passengers, Virgin Blue also offsets the travel of its staff and crew at a cost of $2.5 million. Virgin Blue continues to improve the fuel efficiency of its fleet (through winglets, reduced aircraft weights and better flight planning) and is implementing eco-efficiency initiatives such as waste minimisation and recycling strategies for its aircraft, terminals and offices.

Offset schemes have a very valuable role in allowing aviation growth to continue without producing additional net carbon emissions.

Airports

Airport operators are also taking steps to reduce their impact. A number of Australian airports are participating in the Department of Climate Change's Greenhouse Challenge program. Participating airports submit annual reports to the program outlining their greenhouse gas emissions and savings for the year.

Sydney Airport uses hybrid vehicles on the tarmac and offsets the emissions from these vehicles through its Greenfleet program. The airport has constructed an on-site water treatment plant that will save up to one million litres of water each day. Meanwhile, the airport's Energy Savings Action Plan has resulted in greenhouse gas savings of approximately 6,265 tonnes of CO_2 each year.

Since January 2007, Brisbane Airport has hosted a Required Navigation Performance project with Qantas and Airservices Australia which has shown encouraging results in reducing aircraft emissions.

Attachment 8

Taxation – visa charges

The recent budget also highlighted a particularly damaging small tax on Australia's tourism and aviation industry. Visa application charges were increased from $75 to $100 per person for visitors from nearly all emerging markets to Australia.

As our inbound tourism growth is increasingly about emerging markets including India, China, Vietnam, Eastern Europe, Indonesia and South America the visa application fee of $100 per family member is a significant impediment to growing tourism and hence aviation to Australia.

Distributors such as overseas travel agents can introduce the topic of visa application fees at a critical stage of the consumer's consideration of where they will visit.

When the consumer is also told that, after supplying all of the information to Australian authorities with the fee, they can have their visa application rejected and their application fee not repaid, the consumer will often consider other destinations. If the travel agent gets a higher return from selling alternative destinations than Australia, they have an incentive to highlight Australia's visa application fees and process uncertainties as a common problem for visitors considering Australia.

Given budget cuts to the Department of Immigration and Citizenship and cuts in visa processing staffing overseas, it is impossible to see how the Budget increase in visa fees has anything to do with increased costs of processing, rather than providing this Department with a less painful method of achieving its efficiency dividend.

Research on visa fees to other countries for Indian and Chinese visitors indicates that countries like South Africa, Malaysia and Singapore are significantly cheaper for visas than Australia and are in a good position to publicise and benefit from the latest increase in Australia's visa application fees. In addition, as most developed countries have access to ETA visas for visiting Australia for a service charge of $20, the increased visa application fee can reinforce any suggestion of a bias by Australia against visitors from developing countries.

Visa and Taxes – Australia versus other destinations

Destination	Visa Fees	Arrival / Departure Tax	Total Cost
Europe	$0.00	$0.00	$0.00
Sth Korea	$0.00	$9.16	$9.16
South Africa	$0.00	$12.40	$12.40
Hong Kong	$0.00	$14.66	$14.66
United States	$0.00	$15.63	$15.63
Canada	$0.00	$16.15	$16.15
New Zealand	$0.00	$18.48	$18.48
United Arab Emirates	$28.38	$0.00	$28.38
United Kingdom	$0.00	$44.00	$44.00
China	$50.00	$12.10	$62.10
Brazil	$49.00	$39.76	$88.76
Australia	**$100.00**	**$47.00**	**$147.00**

Attachment 9

Cairns case study – 2007

In September 2007 trials were conducted at Cairns Airport requiring aircraft to use a more direct, fuel-efficient flight path. The new approach offered significant environmental benefits by reducing aircraft CO_2 emissions. However, the trial also increased the number of people exposed to aircraft noise.

Following a public outcry by local residents, the trial was abandoned.

Airservices Australia gave an undertaking that in all possible cases, aircraft landing at Cairns Airport would approach over water, diverting aircraft several kilometres away from populated areas. The outcome ultimately increased aircraft carbon dioxide emissions.

Given Cairns Airport is Australia's fifth busiest international airport, accommodating over 130,000 aircraft movements per annum, the continuation of this policy will lead to a material increase in carbon dioxide emissions as a direct result of Airservices Australia's policy.

The Cairns case study demonstrates the extent to which government policy on aircraft noise can be a significant barrier to low emissions opportunities in aviation.

Air traffic management is the cornerstone of the aviation industry's response to climate change.

An inefficient air traffic management system will ultimately reduce the benefits of the aviation industry's progress towards achieving a more efficient aircraft fleet.

If current aircraft noise policy persists, Airservices Australia, which manages 11 percent of the world's airspace, will not be able to deliver an optimally emissions efficient air traffic management system.

Attachment 10

Passenger Movement Charge

By way of background, delays in processing international passengers through Customs, Immigration and Quarantine agencies at international airports and the impost of the PMC have been a major concern for TTF and our Members since 2001.

TTF representations on these important issues have been significant, as demonstrated by submissions to the Commonwealth Government's Exports and Infrastructure Inquiry, National Tourism Investment Strategy, the Regulation Taskforce, and the last three Commonwealth Budgets.

In summary, TTF:

- strongly rejects the increase in the PMC
- is alarmed by the magnitude of the increase of the PMC from $38 to $47 (almost a 25percent increase) and
- urges the Rudd Government to abolish the PMC increase on account of:
    - the recent rationalisation of air services by Qantas and Virgin Blue
    - historically high fuel prices
    - the high Australian dollar and
    - the emergence of potential trade barriers on long haul travel from the EU.

TTF is concerned:

- about the lack of industry consultation during the decision-making process by the Federal Government to increase the PMC, specifically in relation to the timing and magnitude of the increase
- the burden of the increase in the PMC will impact leisure holiday travellers the most – especially families who have to account for the increased impost as part of their low cost travelling budget
- the PMC continues to over-collect in relation to the costs it purports to recover
- there is a lack of transparency about the details of the costs the PMC purports to recover
- the distinct shift in policy which increases the scope of the PMC beyond border facilitation-related issues
- Australia's major gateways continue to experience significant delays particularly at peak periods and at the secondary line (associated with quarantine inspection - as outlined earlier in this submission) and
- that the tourism industry is already heavily taxed.

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