

Aviation Review Submission

**By
Victorian State Opposition**

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The Victorian State Opposition welcomes the Federal Government's Aviation Review, *Towards a National Aviation Policy Statement Issues Paper April 2008*. It is perhaps timely in that review to reflect on the lack of opportunities provided by the Victorian State Government for the Victorian aviation industry. There is little doubt they have taken the aviation industry for granted, limiting the range of opportunities which includes other industries and regional and state development.

In making this submission, there are a series of significant concerns associated with the Victorian Government's performance and its impact on State and Federal aviation policy. In particular:

- Failure to build a case for the Federal Government to adopt an open skies policy
- Excessive State taxes undermining our competitiveness in the sector
- Failure to invest in regional airports and to build synergies with the regional aviation sector, particularly in tourism
- Ongoing concerns to turn Essendon Airport into a housing development as a short-term cash grab ignoring the strategic importance of this airport
- Excessive residential development under major flight paths putting at future risk Melbourne Airport's 24-hour curfew free operation
- Lost opportunities in attracting international business to Melbourne.

We also recognise the hard work and efforts of the former Federal Minister for Transport, The Hon Mark Vaile MP. Despite the intransigence and lack of interest shown by the Victorian State Labor Government towards aviation, The Hon Mark Vaile MP worked tirelessly to help develop the Melbourne Airport Master Plan 2003 and to boost passenger numbers to Melbourne Airport.

We expect this Review will act as a wake-up call for the Victorian State Government which, despite being in Government for over eight years, has failed to adopt any strategic policies to build on the great potential of Victoria's aviation sector. This submission will now detail our concerns across the many issues outlined above.

Open Skies Policy

Federal regulations restricting competition on the Australia-USA route appears to have severely damaged Victoria's aviation and tourist industries. The current three-way competition between Qantas, United Airlines and Air New Zealand appears to have produced little real price competition.¹

The Review must consider whether opening up Australia's international routes to greater competition would deliver greater competitiveness, lower fares and whether this will encourage international carriers to fly directly into Melbourne thereby boosting Victoria's economy and a range of industries including tourism.

The Review must examine all the costs associated with restrictions to inbound international flights. In particular, the Review should commence with an examination of a report prepared by Singapore Airlines in 2005 which claimed that a lack of competition on the Qantas-dominated Australia-US route was at that time costing Australia up to \$126 million annually in lost tourist revenue alone.

¹ A report by investment bank JP Morgan found Qantas' most profitable route earned 15 per cent of the company's overall profit, and 41 per cent of the profit from its international operations despite accounting for 27 per cent of its international capacity. The Age, "SingAir flies its argument for US route", June 9, 2005.

Even though the cost to the tourist sector is large, we know that the true cost to the economy is much larger because increased flight capacity results in increased outbound freight capacity. Such freight capacity assists the export of key Victorian products with up to 85 per cent of freight moved through Melbourne Airport carried in the cargo holds of passenger jets.² This may help to explain why the volume of international freight leaving Victoria grew by only 2% since 2002 with its value increasing by a very disappointing 1%.³

Furthermore, there is strong anecdotal evidence that potential business investments have been lost to Victoria because of limited and restricted direct flights to Melbourne due to the restricted open skies policy. The "Open Skies Policy" only allows open skies operations for Australian and US designated airlines and not third party carriers.

Qantas, Australia's national carrier, is an important airline for Australia. As a Sydney-based publicly listed company, one responsibility of Qantas is to deliver solid returns to shareholders. This has led increasingly to a perception of centralisation of services in Sydney away from Melbourne, highlighting the fact that Qantas appears to have a set of interests that are not always the same as Victoria's.

This point was highlighted recently where it was stated:

It is in Qantas' commercial interest to prevent new entrants and increased international airline competition in Australia. But because Qantas is a Sydney-based airline and it hubs out of Sydney, by restricting access to foreign carriers, the outcome effectively stymies any international seat growth for Melbourne and Victoria. Qantas lobbies to prevent other airlines adding new services to Australia, but does not introduce much-needed capacity to Victoria itself.⁴

It is also important to stress that international flights generate more employment per landing or takeoff than domestic flights further highlighting the economic costs of the present regulatory system to Victoria.

Victoria is a significant multicultural community with diverse business and cultures and in particular Melbourne is a truly global international city. Therefore it is important for the future of the Victorian economy and the aviation industry in particular that the Review looks at whether all international carriers be given access to Melbourne as a destination.

Avalon Airport

As Victoria's second largest domestic airport located within commuting distance of both Melbourne and Geelong⁵, Avalon Airport is a major freight logistics and passenger hub. The Airport has demonstrated its capacity for growth with the introduction of JetStar who uses Avalon as a major destination point.

The Victorian Coalition supports the development of Avalon Airport as a second international gateway for Victoria. This is vital to create competitive tension with Melbourne Airport in what is currently a monopoly environment and ensure downward pressure is maintained on aeronautical charges levied on international airlines operating to Victoria.

Therefore, it is concerning the prospects for further growth was dealt a serious blow by the Federal Labor Government when it recently chose to block expansion plans for Avalon Airport. It is particularly

² Australian Financial Review, "Vic needs open skies to take off", 21 December 2006.

³ The economic impact of Melbourne Airport, April 2008 p.5.

⁴ Australian Financial Review, "Vic needs open skies to take off", 21 December 2006.

⁵ Victoria's largest regional city

unfortunate that the rejection of the expansion plans cost Avalon Airport a major international air carrier and the associated employment and business opportunities that would have come with it.

If Avalon Airport were to reach its full potential then it is essential that the State Labor Government work more effectively with the Commonwealth to establish greater certainty and clarity around planning. In particular, the State Government needs to work more closely with the Commonwealth to generate greater certainty, awareness and clarity about the scope Defence's future use of the site.

Avalon Airport – Opportunities Lost

The recent disgraceful decision by the Rudd Federal Government to deny expansion opportunities of this significant second major international airport in Victoria is astounding.

This decision will have a severe and long-term impact, particularly upon Avalon but also upon the broader aviation sector throughout Victoria. In particular the decision:

- Cost the airport a major customer, AirAsiaX, which had planned to provide a daily non-stop service from Avalon to Kuala Lumpur connecting with a huge network within Asia and Europe.
- Placed Linfox in the unworkable position of having to spend up to \$40 million on a revised international airport proposal without securing at least one major international customer.
- Damaged the development of the tourism industry of Western Victoria which had been actively preparing for the arrival of direct international services from next year.

The Review must consider the financial implications on commercial aviation operations on Defence Department land.

Future of Essendon Airport

Essendon Airport is an important feeder airport for light industry, tourism, pilot training and for Police and emergency services aircraft.

Approximately 1,500 people are employed by the more than 100 unique businesses situated at Essendon Airport with these businesses having links across Melbourne, Victoria and Australia. It has a long and proud history in the northern suburbs of Melbourne as a provider of high value employment and business.

Police and emergency services aircraft are strategically placed at this airport thereby limiting the impact on Melbourne Airport and it is strategically located to being able to access major cities and regional areas in a timely and efficient manner.

It is therefore a significant concern that the State Labor Government has:

- Called for the closure of Essendon Airport with its 1999 and 2002 State Election commitments
- Voted against a 3 May 2000 Motion in the Victorian Legislative Council supporting the continuation of aviation at Essendon Airport including the retention of the air ambulance links with rural Victoria, the Police air wing and the airport's vital commercial and passenger links with rural, regional and remote Victoria
- Enacted the flawed Melbourne 2030 planning strategy that recommends the permanent closure of Essendon Airport.

It is disappointing that the Victorian Labor Government has failed to understand the importance of this strategic Melbourne-based airport preferring to turn it into a money grabbing housing and commercial development site (refer Appendix 1 for ongoing commentary of Labor's view on this airport).

The policy of closure countervails any longer term strategic plan for Essendon Airport and the aviation industry in general and the State Opposition believes strongly that it is not in the best interests of Melbourne or Victoria to close such an airport.

The Review must consider the impact of this airport's closure in terms of Melbourne Airport and the smaller Moorabbin Airport. In particular, the April 2008 the *Melbourne Airport Economic Impact Study* highlighted the low number of light aircraft using Melbourne Airport as one of its key strengths. At present 97% of Melbourne Airport's aircraft movements are aircraft heavier than 7,000 kg, whereas Brisbane and Sydney are restricted to 86% and 92% respectively.⁶

Furthermore, Labor's proposed closure of Essendon Airport and the transfer of light prop aircraft to either Melbourne or Moorabbin airports may significantly impact upon the Melbourne Airport's Environs overlay (acoustics aircraft noise intrusion).

The Review must look at the impact of moving Police and emergency services aircraft to the International Melbourne Airport and the delays that may occur as a result of aircraft being grounded whilst emergency service aircraft are deployed in response to critical instance in other parts of metropolitan Melbourne.

Therefore, the Review needs to thoroughly consider Victorian Government's policy of closing Essendon Airport from the perspective of its financial impact to business, tourism, pilot training and the relocation of the emergency services aircraft and the consequences for commercial operations at Melbourne Airport and Moorabbin Airport.

Moorabbin and Point Cook Airports

The Coalition recognises the significance of Moorabbin Airport and the former RAAF Airfield at Point Cook as flight training facilities for RMIT and Swinburne Universities, Bachelor of Aviation courses. These two Universities have secured a number of training contracts from foreign international airlines and make a substantial contribution to the export of tertiary education from Victoria.

As such, it is important that the environs surrounding these two airports are protected to ensure their long term future.

In the case of Point Cook, operation of the airport should be transferred from the Department of Defence and placed on a footing consistent with that applied to GAAP airports under the 1996 Airport Privatisation Program. This will allow for the long-term planning and development of private and commercial aviation operations at Point Cook.

Regional Aviation

Increasingly regional aviation is perceived as an essential service. It provides regional communities with outbound and inbound access to medical specialists from State capitals, it provides quick access to business centres for enterprises and it opens up communities to inbound tourism whilst also providing access to major cultural and sporting events in capital cities.

⁶ The economic impact of Melbourne Airport, April 2008 p.24.

The importance of regional aviation cannot be overstated but due to a lack of interest by the Victorian State Government it faces several major challenges that need to be addressed.

Pilot training presents a major challenge to Victoria's regional aviation sector. Regional airlines function as pilot feeders into the larger national and international airlines. Therefore current skills shortages have hit the regional airlines particularly hard.

Discussion with one major regional airline revealed that they expect to lose 60% of their pilots by the end of the 2007-08 financial year. They further estimate that Australia will need an additional 2,000 pilots over the next 18 months yet only around 350 new pilots were licensed in Australia last year and roughly half of those were foreign pilots who will not work for an Australian airline.

This trend is particularly worrying given the continued growth of aviation in Asia, the high costs associated with pilot training⁷ and the lack of interest shown by the Victorian Government in addressing this serious challenge. It is clear that whilst industry is doing the best they can to avert the growing pilot shortage crisis they cannot undertake the necessary reform without significant government intervention. The Review must consider the impact of lack of pilot capacity not only in major capital cities but also on regional aviation.

Below are airports that the Review should consider communicating with:

Ararat Airport, Bairnsdale Airport, Ballarat Airport, Benalla Airport, Bendigo Airport, Corryong Airport, Echuca Airport, Hamilton Airport, Hopetoun Airport, Horsham Airport, Kerang Airport, Mangalore Airport, Maryborough Airport, Mildura Airport, Latrobe Valley Airport, Mount Hotham Airport, Nhill Airport, Point Cook Airport, Robinvale Airport, West Sale Airport, Shepparton Airport, Stawell Airport, Swan Hill Airport, Wangaratta Airport, Warracknabeal Airport, Warrnambool Airport and Yarrawonga Airport.

Therefore, it is essential that a robust and holistic regional airport strategy be developed to ensure that the full potential of regional aviation is realised and that all possible synergies are extracted particularly when it comes to tourism and industry opportunities.

Inbound Flight Tax

The Labor State Government's has recently determined to aggressively pursue stamp duty on insurance contracts signed by international inbound airlines in their home country. This action has alarmed several international carriers and seriously risks raising the cost of international flights into Victoria and represents a major financial impost to Victoria's tourism industry and the business industry in general.

The Review should undertake a thorough examination of all Victorian State Government taxes and charges which impact upon the aviation industry either directly or indirectly. It is noteworthy that, at present, it is difficult to quantify the amount of tax collected by the Victorian State Government through the inbound flight tax as all revenues are merged into consolidated revenue.

In addition, the Review should note that Victoria and Western Australia are the only two States to have aggressively pursued this tax. The aviation industry operates in a highly competitive environment. Therefore, by aggressively pursuing this tax, the State Labor Government is imposing a regressive impost upon the aviation sector and the Review must consider the damage done to Victoria's creditability and whether it had contributed to lost opportunities. For example, the Review should

⁷ Averages to between \$80,000 to \$100,000 per pilot.

consider whether it has impacted upon the decisions by V Australia to headquarter in Sydney and for Etihad to bypass Victoria.

It is unfortunate the current State Labor Government treats the aviation industry as a cash-cow to prop up government revenue. The Review must investigate whether the revenue that the aviation sector contributes to State coffers through taxation has been re-invested in the industry to bolster efficiency, improve competitiveness and build new opportunities.

Residential Planning versus Future Airport Expansion

Melbourne Airport is a significant curfew free international airport. It is essential that all of Melbourne Airport's flight paths be secured from excessive overdevelopment by residential properties. A loss of Melbourne Airport's curfew free status has been estimated by the April 2008 Melbourne Airport Economic Impact Study to cost a massive \$309 million to GSP and 4,642 jobs.

There has been a clear lack of connection in the planning process to the impact that they may have to have the flight paths affected. In particular, there are many amendments to planning schemes introduced by the Planning Minister into the areas surrounding Melbourne Airport, Essendon Airport and Moorabbin Airport.

In particular, the State Planning Minister's Melbourne 2030 planning scheme will have a direct and detrimental effect on Melbourne Airport's long-term planning strategy if unfettered and unlimited height restrictions along the flight paths are allowed to proceed.

The Review must consider external State planning regimes that may intentionally or inadvertently hamper the growth of Melbourne Airport.

Conclusion

This Review must provide a balanced overview of the needs not only of Australia but taking into account the competitive advantage that Melbourne has over other State airports. For far too long, over the last decade, Victoria has been overlooked. There has been minimalist intervention by the State Labor Government in providing the necessary leadership for this very important industry. The Victorian State Opposition welcomes this review and it welcomes the opportunity for again placing Victoria at the centre of federal aviation policy.

Appendix 1

“Labor strongly supports the closure of Essendon airport and redevelopment of the site for mixed housing and commercial uses. Unfortunately the Federal Government has given a long lease on the site with a condition that the airport keeps operating. Labor will seek to negotiate a new long term arrangement which delivers better services for regional and commercial users of the existing airport from elsewhere.”

ALP's 2002 election policy "Labor: Listens then Acts", page 63

“Labor will improve Victoria's airports through...closing Essendon airport and working closely with the Commonwealth to develop the site for mixed housing and commercial uses...”

ALP's 1999 election policy for "Industry Victoria".

“Labor will improve Victoria's airports through...Closing Essendon airport and working closely with the Commonwealth to assist in the development of the site for mixed housing and commercial uses...”

ALP's 1999 election policy, "Rebuilding the Transport Network".

“Essendon Airport's current role in providing specialised functions related to aviation, freight and logistics is recognised. In the medium term, this facility should be closed as an airport and transformed into a significant employment and residential precinct...”

Melbourne 2030, Part 4.3, Page 85.