

AUSTRALIA PACIFIC AIRPORTS CORPORATION
Response to Future of Australia's Aviation Industry discussion paper

November 2020



**AUSTRALIA
PACIFIC
AIRPORTS
CORPORATION**

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EXECUTIVE SUMMARY

The Future of Australia's Aviation Sector Issues Paper 2020 comes at a time of historic upheaval for the industry.

It recognises the need for timely evaluation of the policy and economic response to the COVID-19 crisis, alongside the need to consider the broader reform agenda.

The landmark reforms to the aviation sector of the 1990s, including the privatization of airports and the removal of the two airlines policy, have delivered benefits to the Australian economy and community that are still enjoyed today.

COVID-19 has been a devastating event for aviation. It was one of the first industries to be impacted by international border closures and will be one of the last to emerge from the crisis as second and third waves of the virus prolong the uncertainty of the global outlook.

Domestic border restrictions have further destroyed demand for travel to rightly prioritise the immediate health objective. However, the ad hoc nature of domestic decisions by states, betraying the unified approach offered by National Cabinet have extended the disruption longer than necessary and severely hampered the recovery. As these restrictions now begin to ease, we face the significant challenge of rebuilding passenger confidence to travel, both from a health and financial perspective.

The reality that airports provide an essential service for a country like Australia has been proven beyond doubt through COVID-19. The sector has incurred material financial losses while at the same time many industries have relied on our continued operation for their own survival. While we appreciate the support provided through the economy wide measures such as the JobKeeper program, there has been little to no direct support in recognition of either the impacts or the essential service we provide.

We note the critical importance of the International Freight Assistance Mechanism (IFAM) program in maintaining the connection between Australian exporters and international markets. In implementing this program, government should be watchful that the consolidation of freight through any one port does not become entrenched as we emerge on the other side of the crisis.

The Regional Aviation Network Support (RANS) and Domestic Aviation Network Support (DANS) programs should be applauded for ensuring a basic level of connectivity for essential travel between Australia's cities and regional areas even as COVID-19 rendered these routes unviable. At the same time, while the design of the scheme has sustained airlines, airports have been unable to generate enough revenues to cover the cost of the servicing flights.

While there are encouraging signs that the Australian economy has commenced its recovery, the aviation sector will remain in a perilous position for the foreseeable future. Even as domestic travel gradually returns, the prospect of international travel before late 2021 is remote. As such, our submission recommends that existing measures to support the sector are continued and economy wide measures are retained for the sector. These include:

- Extension of JobKeeper for the aviation sector
- Extension of the IFAM funding beyond 2021
- Gradual tapering of RANS and DANS
- Funding for international security screening charges
- Funding support for the implementation of any future COVID safe travel requirements that may be required.

Australia will be competing globally for passengers and airline routes in an aviation sector that will be severely constrained in the medium term. This creates a greater imperative to resolve existing issues relating to visa fees and processing, and the Passenger Movement Charge.

We also recommend that there is an opportunity for the federal government to establish a fund to support aviation attraction and build on the previous work which has been done on destination marketing. We expect to see a dramatic shift in the aviation industry, with airline consolidation a key feature. The ability to compete for and attract new routes, or the consolidation of existing routes will require funding support.

Broader regulatory reform

We strongly support the Federal Government's long-term policy objectives for the aviation sector.

The competitiveness and efficiency of the Australian aviation sector flowing from the reforms of the 1990s have delivered Australia material benefits in the form of affordable travel, good connectivity and a high quality of service.

The recent navigation of administration by Virgin Australia was critical to maintaining this competition and we have advocated strongly on the importance of at least two strong and profitable airline groups servicing the Australian domestic market.

The safety and security of our aviation industry is essential to maintaining passenger confidence to travel. Together with the environmental sustainability of our sector, they form the basis of our social licence to operate. APAC embraces this responsibility and welcomes the debate of reforms that could improve outcomes in these areas.

Finally, as an owner of both Melbourne and Launceston Airports, we recognise and support the importance of aviation connectivity for diverse communities across Australia.

We welcome the discussion of opportunities to reduce the regulatory burden to maximise the efficiency of existing infrastructure and to facilitate further investment. This includes the consideration of greater flexibility in Sydney's demand management system that would create network wide benefits in the recovery from disruptions, such as from weather events.

The Australian aviation sector has experienced a decade of stellar growth, particularly in international travel. However, in the wake of COVID-19 we will need to ensure we remain competitive and able to respond to changing travel demands and emerging markets.

An ongoing process to further liberalise air services agreements, increase bilateral agreements with emerging markets and move forward with open skies agreements with more countries or regions is strongly supported. Shifting from a just in time approach to bilaterals to a more forward-looking approach would allow airlines and airports to better facilitate passenger demand.

Our submission also addresses the need for reform in relation to airport development. APAC has been fortunate to generate at least some revenue from its property business during COVID-19, as revenues from our core aviation business has been driven to zero.

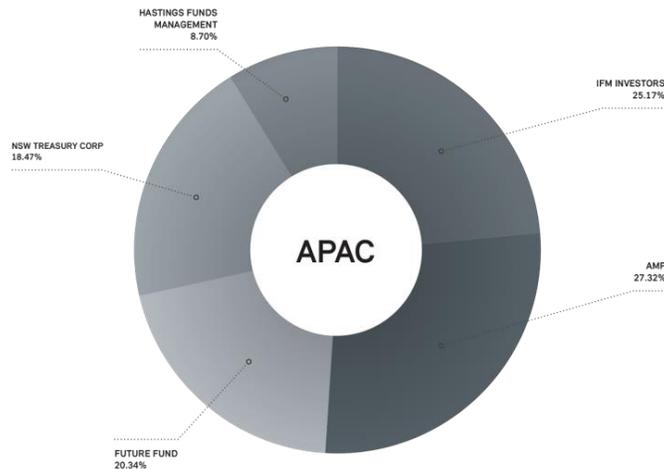
Competitive neutrality was one of the central principles in the development of the 1990s airport reforms. The intention was that airport development was not unduly advantaged by its Commonwealth status as compared to adjacent lands. Over time, additional layers of regulation have gradually created competitive disadvantages in the time, cost and complexity of development approval processes. Reforms to reset the balance would create opportunities for airports to attract more diverse development without impacting the central purpose to support aviation, creating employment opportunities and maximising the economic benefit to the community.

INTRODUCTION

ABOUT AUSTRALIA PACIFIC AIRPORTS CORPORATION

Australia Pacific Airports Corporation (APAC) is the operator of Melbourne Airport (APAM) and Launceston Airport (APAL).

APAC is a privately held corporation owned by institutional investors, predominantly superannuation/pension funds. The funds are owned, managed or represented by the following five entities.



The Commonwealth Government retains ownership of the site and has responsibility for control over land-use planning and development on airport land, including all leased land under the provisions of the *Airports Act 1996* (Cth).

ABOUT MELBOURNE AIRPORT

Melbourne Airport is Australia's second busiest airport and Victoria's major international gateway for aviation. It opened in 1970 and since privatisation in 1997 has grown from 14 million passengers annually to more than 37 million passengers in 2019.

The airport is located approximately 22 kilometres north-west of Melbourne's central business district and is well connected to Melbourne's freeway and arterial road network. This location and accessibility means the airport is well placed to serve as a hub for the freight and logistics industry, as well as to capitalise on growing labour markets. Melbourne Airport's ability to operate 24 hours a day, 7 days a week offer greater flexibility in scheduling flights and lowers the operational costs to airlines by increasing the efficiency of aircraft utilization. Curfew free operations offer a competitive advantage on the international stage, competing with other well-known international hubs to secure air capacity growth from international airlines for Australia.

Melbourne Airport will continue to develop the aviation and non-aviation precincts in line with our Lease obligations. Major projects include:

- A new north-south runway
- Elevated loop road

- Hotel and Hive precinct
- Terminal improvements
- Ongoing road and network improvements.

While COVID-19 had a significant impact on the aviation industry in 2020, prior to this Melbourne Airport had sustained year on year growth for the decade preceding in both its domestic and international markets. 27 million passengers travelled through Melbourne Airport in 2019/20, 8 million international passengers and 19 million domestic passengers travelled through Melbourne Airport.

Melbourne Airport makes a significant contribution to the Victorian economy. Melbourne Airport is also a driver of economic growth across Victoria and the rest of Australia, contributing to \$20.7 billion of economic activity across Australia in 2015-16, including \$17.6 billion in Victoria, which accounted for almost 7 per cent of Victoria's total economic activity. Based upon pre pandemic analysis, by 2037-38 economic activity in Victoria on the Melbourne Airport precinct was expected to increase from \$7 billion to over \$12 billion.

The airport precinct is an anchor employer. Before COVID, there were 20,600 full-time equivalent (FTE) jobs supported on the precinct. Melbourne Airport is an important employment hub for the local community, with nearly two-thirds of employees living within the seven surrounding municipalities. Employment within the airport precinct is projected to increase to 35,000 jobs by 2038.

Melbourne Airport makes a significant contribution to the Victorian economy as a critical component of tourism and trade-based industries that support jobs and create economic growth. In 2016–17 Melbourne Airport handled 277,000 tonnes of international air freight worth \$16 billion. This represents over 30 per cent of Australia's international air freight market.

Approximately 80 per cent of international air freight that moves through Melbourne Airport is carried in the belly of passenger aircraft, with the remainder transported on dedicated freighters. Four international freight airlines currently service Melbourne Airport. Air freight that was transported through Melbourne Airport that facilitated \$4.3 billion in economic activity, of which \$3.7 billion was in Victoria.

A typical daily international flight contributes \$109.1 million to the Victorian economy and supports more than 1,000 jobs per annum. A typical daily domestic service used by interstate visitors adds \$16.2 million to the state's economy.

ABOUT LAUNCESTON AIRPORT

Launceston Airport is the second busiest airport in Tasmania and is the primary port for the north of the state serving over 1.3 million passengers annually. APAC, in conjunction with Launceston City Council, acquired the lease for Launceston Airport in May 1998.

Launceston Airport is situated 15 kilometres south of Launceston City. Launceston Airport serves as a domestic, regional and general aviation gateway to Northern Tasmania for commercial aircraft, airfreight and private operators. It is an attractive gateway for domestic travellers going to the north of the state. The airport is well situated to service the state as it is located adjacent to the Midland Highway and trunk routes servicing the north, north-west, north-east and south of Tasmania. A major freight rail junction is located at the southern end of the airport. Launceston Airport is served by Qantas, Virgin and Sharp airlines.

At Launceston Airport, significant co-investment with the Tasmanian Government investment for terminal and facility upgrades will help to support the growing number of passengers expected to choose Launceston as its port of choice for travel to Tasmania.

Launceston Airport is the second busiest airport in Tasmania for passengers and provides the main aviation hub for Northern Tasmania. Prior to COVID, Launceston Airport reported growth of 1.9 per cent, or 1.39 million passengers in the 2018/19 financial year.

While some 30 staff are employed at Launceston Airport by APAC (and its operating subsidiary, APAL), the airport has an average daily workforce of around 500. In the communities surrounding Launceston Airport around seven per cent of the workforce, more than 6,000 people, are directly employed in the tourism sector.

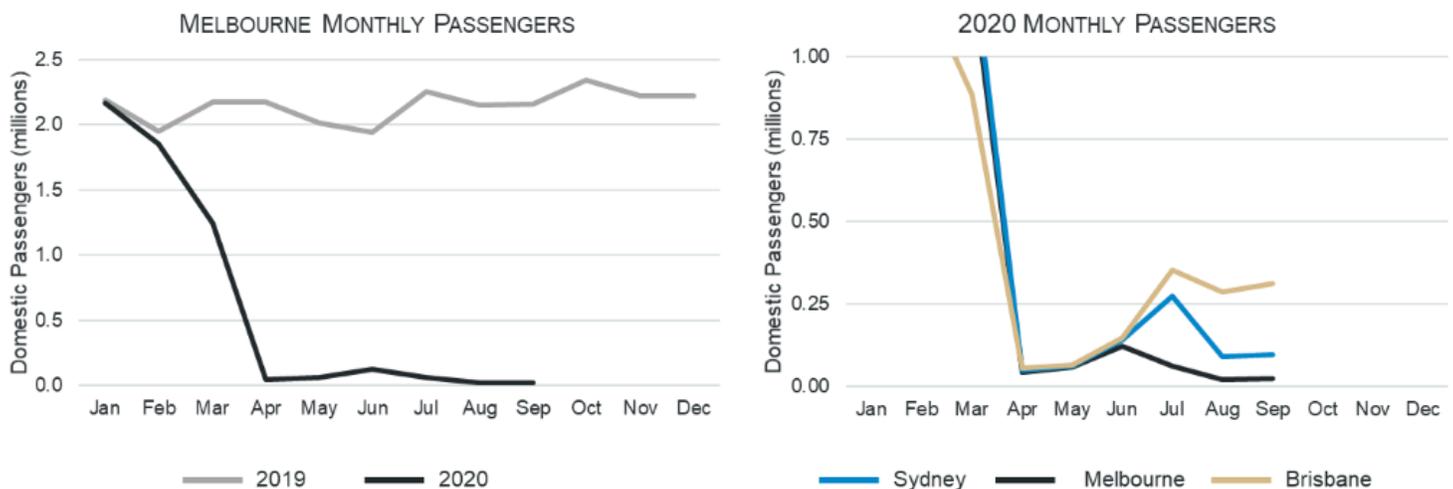
Tourism is one of Tasmania's fastest-growing industries, directly contributing \$1.5B to the economy, with around 21,600 Tasmanians directly employed by the tourism industry and another almost 21,000 indirectly reliant on the economic activity generated by tourism. The tourism industry directly supports 8.7 percent of all Tasmanian jobs and constitutes 4.9 percent of total gross state product, which is the highest proportion/dependency of any state or territory.

PART A: COVID-19 RESPONSE

Part A of the issues paper addresses Commonwealth support for aviation during the COVID-19 crisis, including how best to manage and eventually withdraw support as the economy and sector recover. However, we believe it is critical to note that the aviation industry is still impacted by Government mandated closures on international, and domestic travel, and that winding back support for the industry too early will have a significant impact on the aviation sector and many others who rely on the industry.

COVID-19 IMPACTS AND RECOVERY

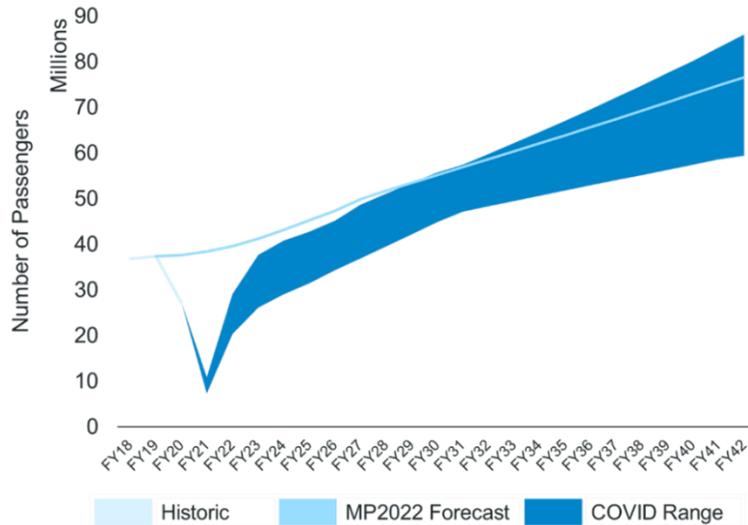
APAC experienced significant passenger downturns as a result of the first and second lockdowns in Victoria. The below chart demonstrates that as at September, passenger numbers were at record low levels since March. Since September this trend has remained the same with small increases being seen very recently as a result of border openings. The second chart clearly demonstrates the impact that the second wave had on Melbourne Airport as compared to the two other major capital city airports.



(Source: BITRE)

In line with industry forecasts, we expect the recovery from COVID-19 to be long and gradual. This sets it apart from previous economic crises (such as 9/11 and the GFC) and from previous health pandemics (SARS, H1N1) which had a fast 'V' shaped recovery.

We currently expect Melbourne Airport's total passenger number return to pre-COVID level by mid-2025, and growth through 2030 until the growth of the industry recovers to previous trends. The domestic market is expected to recover at a faster pace supported by the evidence of domestic recovery in other countries such as Korea, Vietnam and China with well managed virus containments strategy.



ECONOMY WIDE RESPONSES

During COVID APAC was eligible for the Commonwealth JobKeeper package, a measure which supported our objective to retain as many jobs for as long as possible. APAC would like to acknowledge the support provided through JobKeeper and commend the Government for the program.

JobKeeper has been a critical lifeline to the aviation industry. It has allowed the industry to maintain employment connections with trained and accredited employees while also supporting the many allied businesses across our airport estate including retail tenants and service providers.

When JobKeeper is scheduled to expire in March 2021, it is likely that domestic operations will have only partially recovered and international will remain closed, with the exception of a limited number of 'bubble' arrangements such as New Zealand. We anticipate that our operations would be back to approximately 30% of pre-COVID levels, assuming no further significant outbreaks within Australia occur and all domestic borders reopen. As such, there will remain a significant gap in revenues and an ongoing challenge to the viability of some aspects of the aviation industry. An ongoing program, with clear eligibility requirements that could be subject to periodic revalidation would support confidence and ensure that the aviation industry is given the opportunity to get back on its feet.

We note that while the support was valuable APAC was regrettably forced to undertake workforce reduction in response to the ongoing closures forced by Victoria's second wave.

INDUSTRY SPECIFIC MEASURES

The Commonwealth Government also provided some aviation specific measures including:

- International Freight Assistance Mechanism (IFAM)
- Domestic Aviation Network Support (DANS)
- Regional Aviation Network Support (RANS)
- Australian Airline Financial Relief Package.

RANS and DANS assisted in providing a skeleton network schedule to assist with the movement of essential workers across the country. It is important to note that the level of support that these schemes provided to airports was relatively small. The requirement to stand up the level of operations required at airports to facilitate these flights meant that the costs to the airport significantly exceeded the revenue received from these flights as passenger load factors for these services was minimal. Internal calculations on average revenue and costs per flight in July (excluding Security costs, technology and corporate overheads) revealed an average 25% loss.

The lack of direct support for metropolitan airports is a significant gap in the Government's response to supporting the aviation industry. While airports bear the passenger risk in most aviation commercial agreements, the extent to which our business has been exposed to the costs of providing an essential service to industry and the broader community is concerning. We recommend that government consider an equivalent response to the RANS and DANS program with respect to airport costs in support of a minimum RPT network.

The International Freight Assistance Mechanism (IFAM) has made a significant contribution to encouraging airlines to continue to fly during COVID and allowing for freight movements to continue. As much of the freight in Australia is carried in the belly-hold of passenger flights, the loss of passenger travel could have decimated this trade. We congratulate the Government for putting in place this successful program.

We note that the program has been extended until July 2021, however we would like to ask that an assessment is undertaken prior to that time to consider an ongoing role for this program until greater levels of passenger movement can occur.

As Melbourne Airport will reopen from December 7 2020 to international passenger services, we would also ask that there is a process to ensure that freight capacity is not centralised to Sydney, at a disadvantage to Victorian, Tasmanian and South Australian producers who rely on Melbourne Airport as a freight hub.

The Commonwealth Government also provided temporary land-tax equivalent relief. This relief accounted for less than five per cent of the relief that APAC provided to tenants and partners as required by the Commercial Tenancy Code of Conduct. Between 1 March to 31 August, APAM provided approximately \$107 million in rent relief to tenants at Melbourne Airport. Between 1 September and 31 December, APAM is forecast to provide a further \$75 million in rent relief.

TRANSITION ARRANGEMENTS

As we know, the aviation industry is facing medium to long term consequences from COVID-19, and as such we would ask that Government support for the sector continues. While we understand Government's objective to withdraw assistance and shift from industry support to targeted economic measures, the aviation industry remains significantly impacted by a COVID restrictions which directly suppress demand for travel. A measured transition is therefore critical. APAC recommends that the Commonwealth:

- Provide additional and ongoing support to airports as the industry slowly recovers from COVID-19
- Support to aviation through driving tourism and travel demand.

We would ask that Government provide early clarity on how the RANS/DANS support will continue in order to allow airlines and airports the opportunity to plan for that. We anecdotally understand that airlines are holding back their recovery because they do not know what the future of RANS/DANS will be post March.

LESSONS LEARNT FROM COVID-19

The necessary rapid development and implementation of policy and economic responses by Government at scale in response to the COVID-19 crisis inevitably leaves opportunity for refinement. We welcome the transparency by government in communicating this reality. We have identified a number of areas opportunities for improvement which

might result in better targeting of support for industry or result in managing industry disruption so that it may be less severe or shorter in duration.

Firstly, on border policy. COVID-19 exposed the fragile nature of Australia's federation with state borders closing, inconsistent rules around border crossings and a lack of clarity on changes and timing. Each state chose its own path, and the inconsistencies in how and when they applied border closures had an impact on aviation. Now that most borders are reopening it is critical that they do not close again, and that this situation is not allowed to reoccur. The recent example of borders closing in response to the South Australian outbreak demonstrates that passenger confidence remains reasonably fragile in the face of uncertainty.

Further to the point above, COVID-19 has really been the first time that there has been a significant involvement by state governments and agencies in airports and aviation. This was not without its challenges, as agencies struggled to adapt to an airport environment, and meant that policy and operational outcomes were not optimal.

COVID-19 also highlighted to the industry that there is room to improve the operational understanding and linkages between Departments at both Commonwealth and State levels. An example of where this is challenging is on the future of international travel. Airports want to be able to understand and engage in policy development around how international arrivals from Green and Red lanes might proceed in the future. However, this has been challenging as there as several Departments and Agencies engaged in these discussions, and there can be different views and priorities communicated about the progress of this process and the identification of issues.

We believe that there may be merit in the establishment of an industry reference group to assist in these discussions and ensure that there is consistency of understanding on key issues across different departments and levels of government and that the specific operational challenges of aviation are well understood. While it is important that such a group be representative of industry, we encourage government to keep membership manageable to support efficient consultation and decision making.

FUTURE INDUSTRY INITIATIVES

We would urge the Government to continue providing sector specific support to the aviation industry. The aviation industry is not expected to recover for some years, and while there remain significant limits on international travel a full recovery will not be possible. In terms of the style of support provided, we would recommend that support mechanisms are targeted and direct.

AVIATION SECURITY STANDARDS AND SECURITY FUNDING

There is an opportunity to amend how security updates are administered and funded. Security is critical not only from a traveling public perspective but serves a broader function, by protecting the community, protecting the reputation of the industry and protecting the infrastructure. Security upgrades always incur a considerable cost to airports and aviation security standards evolve quickly to respond to new and emerging threats.

The Commonwealth rightly seeks to ensure the security standards and technology at airports for both domestic and international operations are world's best practice and go towards ensuring public confidence to travel. This in turn supports ongoing benefits to the Australian economy through travel and tourism.

An outcome of this desired standard creates a significant cost to industry. These costs could impact on the commercial viability of marginal services provided by airlines, which could stifle the post-COVID recovery and create an unnecessary drag on the economy.

APAC proposes that the Commonwealth should provide industry funding, especially as part of the post-COVID recovery transition to support the implementation and development of new passenger and baggage screening infrastructure and technology. Estimates are that the current round of regulated upgrades will cost industry in the order of \$1 billion. This is a considerable cost to fall on the industry to provide a level of service which is for the common good.

EX GRATIA LAND TAX

We thank the Department for delivering the position paper on Ex Gratia Land Tax (EGLT) in response to the recent Federal Court decision of *Commonwealth of Australia v Essendon Airport Pty Ltd*. APAC is participating separately in this review.

FUNDING FOR COVID SAFE MEASURES

As part of the re-emergence from COVID there is significant discussion on how to ensure that the aviation industry can facilitate COVID safe travel. The domestic aviation industry developed and received endorsement for the COVIDSafe Flying protocols, however we expect the requirements for international travel will be more significant.

For example, in order to facilitate travel, airports are being asked to implement infrastructure changes to allow the separation of travel cohorts. Consideration is also being given to future requirements such as rapid testing of international passengers, digital health passports as well as other measures. New technology and potential infrastructure changes which go along with those will create a cost impost on industry at a time when it is least able to afford them.

The aviation industry wants to provide a safe and secure environment and provide passengers and employees with confidence in travel. We would recommend that Government establish a funding mechanism that ensures that any new regulatory requirement imposed upon the industry is fully funded by Government.

ECONOMY WIDE SUPPORT MEASURES

APAC would also like to raise the following economy wide measures that would have a positive impact on airports.

Tax loss carry back: As part of the 2020–21 Budget, the government announced that it will target support to businesses and encourage new investment through a loss carry back regime. While the intent of this measure is welcomed, in the context of Melbourne Airport its impact is limited due to the structure of the assistance. This is because the amount of the refund is limited by the corporate entity's franking account credit balance at the end of the year in which the entity files its tax return claiming the loss carry back tax offset. An exemption to the franking account credit balance limits provisions for the aviation industry would provide support to the sector that has been and continues to be significantly impacted by the pandemic induced restrictions.

Temporary full expensing: Temporary full expensing of eligible capital assets included in the Commonwealth Budget allow eligible businesses to immediately deduct the cost of new depreciating assets that are first used or installed ready for use by 30 June 2022. However, assets that were committed to being acquired prior to 6 October 2020, or capital investments such as buildings and infrastructure are not eligible for this scheme. Given the delivery of airport assets have a long-lead time, an extension of the 'first used or installed ready for use' date from 30 June 2022 to future years, and inclusion of capital investments for immediate expensing, will support airports to restart projects that were on hold and create jobs for thousands of people.

Debt guarantees: As a large infrastructure asset, Melbourne Airport carries a significant amount of debt on its balance sheet, which has funded hundreds and millions of dollars in investment into the airport. The impact of COVID has had significant impacts on airport revenues, which has impacted the requirements of debt investors on the airport. These requirements, while manageable, will act as a constraint on future investment into the airport. A Commonwealth

Government guarantee of APAC's debt would lift these constraints, and enable the airport to re-start stalled projects, and commence investment in new infrastructure sooner than would otherwise be the case, creating thousands of jobs to support the COVID recovery.

TOURISM AND VISITOR INDUSTRY SUPPORT

As stated above, the aviation industry and the tourism industry are inextricably linked, and this will be particularly be the case in a post COVID world. As we emerge from COVID the dynamics of the aviation industry will be quite different. We expect to see considerable consolidation of airlines during COVID and in the years to come as flying remains below 2019 levels. As a result of this, attracting airlines and passengers to Australia will be a considerable challenge.

AIRLINE ATTRACTION FUNDING

Airlines are going through massive operational consolidation to reduce costs during the pandemic, including reducing their fleet, crew / human resources and overall organisation size. To restore air service capacity to pre COVID level, all international airports are competing to secure the limited air capacity from airlines. It is crucial to have Government financial package to support airports in attracting air capacity, which airports would also add to the funding package.

Traditionally the Australian Government has supported demand creation initiatives through international destination marketing, however we believe given the impacts of COVID on international travel demand that a more direct approach to stimulate activity by airlines would provide a more targeted and effective approach. It would also reflect the fact that post COVID all global cities will be competing for air traffic in a market where many airlines have consolidated and simply don't have financial capacity to develop new markets over time. A competitive fund that can be accessed through joint applications from airlines and airports to establish new routes with funding support will help ensure that Australia remains well serviced as the industry recovers.

PASSENGER MOVEMENT CHARGE

The Commonwealth currently applies a levy of \$60 per passenger to ostensibly recover the costs of operating its international border operations. The charge which in many cases is approximately double, or greater, than the total airport charges for the provisions of all their infrastructure creates a significant cost impact on the aviation sector. This will become exacerbated in the future where it is expected that there will be an increase in the level of low-cost carrier travel. The charge of \$60 represents a significant percentage of the total ticket cost particularly on destinations such as New Zealand. At the time of writing, there is evidence of international charges comprising of more than a quarter of the one-way ticket price for travel between Melbourne and Auckland.

A key issue with the charge is that pre-COVID it raised in the order of \$1.1 Billion for the Commonwealth per annum; however, the total cost of the services provided was only in the order of \$400 million per annum. This represents a significant over recovery. In addition, the Commonwealth introduced the draft International Port Operators Guidelines (IPOG). The IPOG, despite being only in draft form, has been applied by DITCRDC and the Border agencies through the development assessment process for new works in international terminal developments. These standards, requirements and the project management overhead potentially impose a huge cost burden on airports and consequently on airlines and their customers. In many cases the developments are in response to requirements from government agencies for enhanced infrastructure, space and services.

APAC recommends the Government review the international passenger charge, both in terms of total costs, but also to hypothecate the revenues towards the provisions of both infrastructure development and services related to the provision of relevant airport/aviation operations and services.

Alternatively, it is noted that the sustainable funding of CASA is raised in the Issues Paper, and potentially part of the PMC could be hypothecated to CASA in the future.

VISA CHANGES TO SUPPORT AVIATION DEMAND

A key part of the recovery from COVID will be the recovery of international travel demand when the situation allows. This will drive the revival of many sectors including tourism, trade education and immigration. There are significant opportunities to improve Australia's visa system to support stimulating this demand, and in the longer term, ensure that there are no additional barriers to travel for potential visitors.

Two initiatives that the Government might consider to stimulate this demand are:

- Reductions in VISA processing charges for key markets; and
- Streamlining visa application processes.

We know that in some markets, for example China, the current process for applying for Visas to visit Australia is still slow, paper based and costly. When considering travel, these are factors which influence destination choice and are ones which can be addressed. Pre-COVID, APAC has consistently received feedback from airlines and passengers from China that this has a considerable impact on Australian bookings. We have raised these issues for some time, and while recognising that they sit outside the direct responsibility of the Department, they are issues which would have a future impact on travel.

PART B: THE FUTURE OF AVIATION; THE GOVERNMENT'S FIVE-YEAR PLAN

Part B focuses on the future regulatory and policy reform options that would create a sustainable, safe and efficient aviation industry.

In the 1990's there was a significant reform process which occurred in aviation, including the privatization of airports and the removal of the two airlines policy. In the last decade, there have been only modest reform in the aviation industry. This issues paper comes at a more critical time for airports, where the benefits of those early reforms are started to be eroded in outdated regulation and process, issues relating to the interplay of departments and at different levels of government.

Airports have the potential to be even more significant jobs and industry hubs than in the past. As we have seen in the development of Western Sydney, opportunities to co-locate industry, services and transport provides an unsurpassed opportunity to create lasting economic benefits. The next era of reforms should be about releasing the enormous potential of airport sites to support jobs and economic growth into the future.

Since the 1990s the majority of change in the industry drive through aviation growth, technical change, infrastructure investment and social change. APAC would encourage the Government to pursue policy and regulatory reforms that set industry up for the coming decades in response to this paper focusing on matters such as:

- Ensuring airports are able to competitively grow non-aviation development and delivery commercially competitive opportunities
- Reducing the regulatory burden on planning and development
- Ensure that Federal Government laws retain primacy over state and local laws and potential airport encroachment
- The sustainable growth of international ports
- Progress bilateral and open skies agreements.

BUILDING AIRPORTS JOBS AND CITIES

Many airports, Melbourne Airport included, are fortunate to be surrounded by a significant land bank, much of which is suitable for commercial development. This provides opportunities to grow industries, jobs, freight and aviation. Airports work for so many developments given their size, location to transport and ability to host large scale developments. An example of this is the Wave Park at Melbourne Airport, Urban Surf. While a surf park at an airport in Melbourne might sound incongruous, the space available on the airport estate and the surrounding environment is ideally suited to host large scale development for recreation purposes.

COVID has highlighted to APAC the need to ensure that our revenue streams are less exposed to shocks in the aviation market, a more effective planning and development approval process will help us invest in the opportunities that our significant land bank affords us. In order to do this, we believe that the processes in the Airports Act and the interface with other departments and legislation would benefit from review in order to remove barriers to investment, while still maintaining the critical protections for community and the environment.

Some areas for opportunity include:

- Allowing for the approval of "Precinct Plans" for non-aviation development as part of the Master Planning process allow for a faster approval process when commercial opportunities emerge
- Increase the MDP financial threshold to \$50 million to allow for the cost of developments at airports

- Review the intersection between the Airports Act and the EPBC Act to remove duplicative processes and reduce approval times
- Review the process for ‘whole of environment’ assessments under the EPBC Act to ensure that airports are not disadvantaged against non-airport land developments.

MAJOR DEVELOPMENT PLANS (MDP)

Major Development Plans are targeted at ensuring effective controls and assessment for major development and activities which are expected to have a level of assessment and conditioning prior to being undertaken. This principal is accepted by APAC. The issues arise when relatively small-scale developments which are consistent with statutory Master Plan are caught up in the approvals process purely because of the arbitrary low project value threshold of \$25 million. In comparison, a project on adjoining State controlled land may only require a local government planning approval and building license, (where it is consistent with the Local Planning Scheme) taking a matter of weeks or several months to be granted. An equivalent project on airport land needing an MDP would be subjected to considerable delays with approvals taking 18 months or longer and being subjected to considerable conditions. Increasing the financial threshold of MDPs to \$50million would support investment, growth and jobs throughout airport business parks and land banks without unduly impacting local amenity or environmental protections.

APAC proposes an alternate application of the legislation as it currently stands to enable FLAs, on matters of non-aviation developments, to obtain an MDP for a precinct. The development of a precinct can easily be interpreted as a development under the provisions of the *Airports Act*. In undertaking the assessment on a precinct-basis it allows for proper assessment of bulk, scale, aviation assessments (NASAF) and cumulative environmental and social impacts consistent with the *Airports Act*. This would then allow any non-aviation development within the provisions to be undertaken pursuant to the Consent and Building Permit and in doing so bring the approval process and timeframes back in line with adjoining State land developments.

EPBC ACT OVERLAP

APAC acknowledges the recent review of the *Environment Protections and Biodiversity Conservation (EPBC) Act*, led by Professor Graeme Samuel AC. APAC has extensive experience with the management and regulation of environmental impact of development projects, including those under both the *EPBC Act* and the *Airports Act*. It is specifically noted that the *Airports Act (Environmental Protection) Regulations* essentially cover all relevant matters relating to environment assessment for projects, excluding matters of national environmental significance (MNES) which are dealt with under a referral process through the *EPBC Act*.

This duplication has led to confusion and a departmental overlap between the DITRDC and the Department of Agriculture, Water and the Environment (DAWE). While the airport lease frameworks and the *Airports Act* makes it clear that the *Airports Act* assessment and approvals under the powers of the Minister for Infrastructure are the prime mechanism, there has been growing regulatory creep and process duplication by DAWE seeking to apply its own processes, approvals, and conditions outside of any legislated mandate. This has been exacerbated through the application of the ‘whole of environment’ assessment provision, ostensibly done on the grounds that developments are on Commonwealth land. This misapplication of the provision ignores the reality of the *Airports Act (Environmental Protection) Regulations* and creates unnecessary delays and conditions being applied. Currently examples of this include PFAS contamination and extensions to major development plans.

APAC sees several opportunities to improve the operation of the *EPBC Act* as it relates to airports and the way the *EPBC Act* and the *Airports Act* intersect when dealing with major developments. The net effect of adopting these recommendations would facilitate more efficient investment at Australian airports, delivering better quality outcomes for lease holders and airline partners, supporting employment and economic activity. A review should consider whether the

'advice' requirements of Division 4 in Part 11 of the *EPBC Act* remain appropriate. Broadly speaking these provisions require the Commonwealth agency responsible for regulation of airports (DITRDC) seek the advice of the environment Minister (who is responsible for the *EPBC Act*) before approving any airport MPDs.

ENVIRONMENTAL ASSESSMENT AND CONDITIONS

As noted above, the current application of 'whole of environment' assessment by DAWE, pursuant to the *EPBC Act* on airport development has created the perverse breach of competitive neutrality by imposing on airport developments assessments and conditions which would not apply to adjoining developments on State land. If DAWE, based on scientific evidence believe matters are of national environmental significant or human safety and wellbeing, it should then be required to apply the conditions on both Commonwealth and State land. In applying assessment and conditions exclusively on Commonwealth lands, it implies a matter is not of national significance and therefore should not be applicable on airport land as assessments should be pursuant to the Airports Act (Environmental Projections) Regulations, or conversely it should be applying those conditions to all developments including those on State controlled land (noting that if a matter is of national significance, as claimed, then DAWE has both the jurisdiction and head of power to apply such conditions on State controlled land).

MANAGING NOISE AND AIRSPACE

APAC believes that there is opportunity to reduce the regulatory burden across a broad range of areas including planning and development processes and around air services agreements.

NASF AND AIRPORT SAFEGUARDING

Noise is an inevitable part of running an airport and creates impacts on communities surrounding the airport which must be managed. There are reforms where airports and governments can work together to mitigate the impacts that arise from airport operations and noise.

It is the responsibility of both the airport lessee and the Commonwealth Government to protect the operations of the airport and prevent restrictions on operations. FLAs contend with the risk of encroachment on a continual basis, a process whereby the demand for land for housing and other development results in areas subject to higher aircraft noise being developed for inappropriate purposes. This is compounded by the fact that airports are significant sources of employment and generate economic activity in local and national economies. As communities around airports, expand so to do the risks of operational restrictions being placed on aviation.

In Australia, the burden of preventing encroachment falls on individual State and Local Governments, with federal legislation having little or no impact on preventing inappropriate development around airports. In order to address this policy failure, the National Airport Safeguarding Network (NASF) principles and guidelines were established in 2012.

The guidelines provide guidance on noise and other operational areas which need to be considered both on and off airports. Unfortunately, the adoption of the NASF Guidelines into State legislation is inconsistent and often does not result in their uptake or effective implementation. The connection between the Commonwealth departments, State and Local governments is critical to the ongoing operational integrity of FLAs. FLAs would benefit from a Commonwealth framework to ensure states incorporate the NASF Guidelines effectively to ensure safeguarding critical assets through effective land use planning and compliance.

MANAGING NOISE AND ACCOUNTABILITY OF NOISE COMPLAINTS

Airports and airlines are the public face of the aviation industry. Airports are often the primary place that the travelling and neighbouring public engage with the aviation industry. Currently, Airservices bears most of the accountability of aircraft noise and the burden of complaints as a result of encroachment. Airservices are required to engage with the

community when introducing or changing the distribution or intensity of aircraft noise. There is currently no legal requirement for Airservices to consult with airports on matters that will impact the communities surrounding the airports.

When FLAs plan to develop assets that impact the use of airspace and noise, Major Development Plans (MDP) are mandatory, showing intended flight paths and changes to in air operations. Through their operational power, Airservices can alter what has been approved in an MDP by instructing aircraft to fly outside of the published flight corridors, imposing noise on communities who may have not experienced noise or not been told that there is an impact until they experience it.

When Airservices change the scope and parameters of flight corridors, or decide to deviate from approved MDPs, there should be a legislatively enshrined obligation to consult with the airport. This will assist the airport in managing communications to the public and parties who are concerned about noise as well as ensuring better transparency around why and when noise impacts are experienced.

APAC believes that greater transparency and accountability measures need to not only be enforced on airport operators but also Airservices and airline operators. A greater level of accountability towards Airservices shares the burden imposed by communities impacted by noise.

MANAGEMENT OF AIRSPACE AND EFFICIENCY

Efficient management of airspace is a critical component to the operational integrity of airports. Government has an opportunity to significant shape regulatory or policy change that unlocks airfield efficiency. Prior to COVID, Airservices developed several programs that were being delivered to boost operational safety and efficiency. Examples of this include the Airport Collaborative Decision Making (ACDM) program. The sustainable and efficient recovery will be supported through a continued commitment to the programs which improve efficiency.

Using NATS and other Air Navigation Service Providers (ANSPs) as examples of best practice, there are several initiatives that are currently not fully considered in Australian airspace. Examples include grouping of aircraft using long range flow to achieve better runway capacity and reduced fuel burn and emissions, Time Based Separation, linear holding, crosswind limits, alternating between wide body and narrow body aircrafts and OneSky. These small investments would have big cost savings on expenditure for the industry.

APAC would like to see a clear roadmap that could include how and when these efficiency initiatives will commence and a plan to address the lack of capacity across the domestic network.

INTERACTION WITH STATE AND LOCAL LAWS

FLAs are unique operations in that they are federally regulated operations and land, that sit within state and local areas. This means that there can be unnecessary complexity in regulations governing FLAs. Ensuring that Commonwealth Laws and the Airports Act retains primacy is critical to reducing red tape and providing operation certainty for airports.

STATE LAWS AND THEIR APPLICATION

APAC notes that it operates within a heavily prescribed and regulated industry, including the requirements of the Commonwealth lease, the *Airports Act* and the *EPBC Act*, amongst many other Federally based requirements. It is acknowledged that where there is no prevailing Commonwealth legislation or regulation, for example bushfire management, that State laws and regulations will apply. This is a sensible and pragmatic approach. The concern of seeking to transfer or delegate powers to State or local decision making has significant adverse implications for airports. It would inevitably lead to fragmented and inconsistent approaches to a multitude of development and operational processes. This

creates uncertainty for investment, confusion in the community and most importantly would go against the intended aim of removing duplication by introducing more layers of bureaucracy and process.

APAC recommends that the primacy of Commonwealth legislation, regulations and policy applies to the assessment, approval and management of Commonwealth leased airports. This will ensure a nationally consistent approach and prevent the potential fragmentation of aviation sector management approach based on local or State political imperatives.

LOCAL LAWS AND THEIR APPLICATION

Similar to the issues raised around interaction with state government regulation, the empowerment of Local government when it comes to the application of conflicting and confusing laws on FLAs is an issue for airport planners. While the objective of streamlining processes makes some sense, the reality is major national infrastructure should not be unreasonably constrained by local government decisions. The basis of the significant investment by the shareholders of Commonwealth leased airport is the fact the airports represent nationally critical infrastructure and services and are regulated in a consistent central approach through DITRDC. This certainty of framework provides the essential confidence required by the Shareholders to invest considerable funds over the long-term to support the continued growth of the airports and the continuous reciprocal benefits they provide.

The 2009 Aviation White Paper provided a clear framework for the engagement with the State and Local governments and the community through forums such as the Community Aviation Consultative Group (CACG) and the Planning Coordination Forum (PCF). APAC believes it would be best to retain and reinforce the importance of these channels of engagement, rather than handing duplicative and varied powers to those levels of government over Commonwealth leased airports relating to approvals and assessments of developments.

DEMAND MANAGEMENT AT SYDNEY AIRPORT AND THE IMPACT OF SLOTS ARRANGEMENTS

APAC supports the position presented in the issues paper regarding slots arrangements. Currently, only Sydney (Kingsford-Smith) Airport has a Commonwealth-regulated slot management scheme. Other airports, including Melbourne, have airport-controlled slot management schemes, which are based upon IATA's World Airport Slot Guidelines. APAC is supportive of a review of Sydney Airports slot scheme and acknowledge that operational benefits will flow onto other airports that are connected to Sydney. Delays at Sydney Airport impact the operational efficiency of the whole domestic network and have flow on affects to the international network. APAC looks forward to providing a submission to the Governments *Review of Sydney Airport Demand Management* issues paper in due course.

Sydney Airport is unique among Australian airports due to the proximity to the city and impact of noise on the surrounding community. Although these issues remain, we do believe there may be opportunities to review the operational aspects of the movement cap to deliver greater flexibility. For example, it may be appropriate that the 80 movement/hr limit, and rolling hour measurement of this, is temporarily flexed over a longer period than 1 hour, in the event of network disruption (e.g. weather); which would then allow for faster recovery to the network where the infrastructure capacity is available. There are numerous instances where delays in Melbourne are compounded due to the slot limitations in Sydney, despite the notional capacity in Sydney allowing a higher movement rate.

The other aspect of slot schemes is the historic precedence rule, which allows airlines to retain slots from one season to the next provided they have operated that slot series at least 80% of the time. This is a key aspect of the IATA World Airport Slot Guidelines and the Sydney slot scheme which should be maintained. APAC has nonetheless supported short term waivers to this rule due to COVID-19 pandemic which have resulted in airlines inability to fly due to government restrictions or border closures. We are committed to ensuring airlines can recover from COVID-19 and have security of slots for the recovery once it occurs.

FUTURE OF AIR SERVICE AGREEMENTS

Over the past decades the number of new airlines and routes established into Australia has been significant. However, COVID-19 will impact the aviation industry in unprecedented ways. A number of airlines have ceased operating during COVID-19, and with a slow recovery forecast we would expect to see further consolidation. As stated in the tourism support section of this paper, competition to attract airlines and establish routes will be fierce as airlines operate in a cash constrained environment.

It is critical that Australia is ready to respond to that recovery and those new airlines and markets to ensure that we capture those opportunities. To support this, APAC recommends some changes to the way that air service agreements are negotiated, and expansions to open skies agreements with new and emerging markets.

ASA AGREEMENTS

Ensuring timely negotiations of air service agreements (ASA) will guarantee the ongoing competitiveness of the Australian aviation industry comparative to other international markets. The management of more than 100 agreements with international countries and economies is a considerable task and the list of destinations is growing rapidly as consumers desire for new locations grows. The bilateral rights between nations expands a mutually beneficial tourism and business market and ensures competitive pricing for passengers on both ends of the trip.

Currently, ASAs are negotiated in a 'just in time' fashion, where the Commonwealth engages in negotiations as the ASA is about to expire. By beginning negotiations ahead of capacity being met, the Commonwealth can support growth that responds quickly to market demand. Early negotiation will ensure adequate planning from both airports and airlines and forecasts can be supported with timely negotiations instead of relying on seeing markets that are constrained.

An example of markets which have shown considerable growth, expending the ASA (pre-COVID), and having capacity demands on top of what is already allocated are Vietnam and the Philippines. Both markets will require considerable ASA capacity growth quickly, and the current model does not support this rapid growth. It is worth noting that some ASA negotiations are hampered by terms and conditions applied to increases in rights. Application of terms and conditions are often acceptable when considerable increases to the ASA capacity is negotiated. Inequity in conditional ASAs impedes on airports and airlines growing markets that are primed for expansion and discouraged airlines to view Australian markets as viable growth corridors.

OPEN SKIES

Furthermore, to these potential improvements, the government's consideration of expanding its open skies arrangements with new and emerging growth markets would only further increase this growth. Currently there are several open skies agreements in Australia, all of which are with strong market performers. APAC advocates for the expansion of these open skies agreements to include markets that are regularly reaching the ASA capacity, and which show no signs of decline. Such potential markets include Indonesia, Qatar, Philippines and Vietnam. A full deregulation of the ASA system and blanket open skies would best promote market growth.

PRIORITISING CAPITAL CITY GROWTH

In addition to the growth of new airlines and routes, Australia has seen a number of existing domestic airports add the capacity and infrastructure to service international passenger traffic. While we support the greater accessibility for remote and regional Australians, the development of international ports must be committed on a sustainable basis to avoid inefficient application of government resources. We note that the International Port Operators Guide has been introduced by Government to ensure that there are processes to manage these expansions in a way which balances the needs of existing and potential future operators. We support government taking an active approach in considering the costs and benefits of adding new international gateways.

In addition to this, international services are also flying to non-metropolitan and regional airports at an ever-increasing rate without them counting towards capacity limits stipulated in ASAs. ASAs only apply to major international airports and international services flying to regional airports are under no obligation to count those services towards their capacity limits. While APAC supports regional growth and agrees that international services flying to regional airports need not be counted towards capacity limits for those markets, we believe that closer monitoring of regional airports and their ability to sustain international services be considered to ensure that, as a combined metropolitan and regional aviation network, we are growing the industry in a sustainable manner.