SYD

2 December 2020

Director, Project Strategy Unit
Strategic and Economic Policy Projects
GPO Box 594
CANBERRA ACT 2601   Via email: aviationconsultation@infrastructure.gov.au

Dear Secretariat,

Submission in response to *The Future of Australia's Aviation Sector: Flying to Recovery* Issues Paper

Sydney Airport (**SYD**) appreciates the opportunity to comment on *The Future of Australia's Aviation Sector: Flying to Recovery* Issues Paper.

Aviation was the first sector hit by COVID-19 and will likely be the last to recover. For this reason, SYD welcomes the Government's focus on the recovery of the aviation sector over the medium-term.

Like many businesses in the aviation and tourism sectors, SYD has been placed under considerable financial strain in keeping the airport operating as an essential service to support the movement of people and goods. This has occurred in an environment where passenger numbers have declined by approximately 97% at SYD since April 2020.

Prior to COVID-19, SYD facilitated ~$38 billion in economic activity (equivalent to 2.2% of the national economy and 6.8% of the NSW economy), supporting over 330,000 jobs including 33,000 jobs across 800 businesses on the airport site itself.

Regulations, policies and procedures should never be set in stone and need to be constantly reviewed to ensure they remain fit-for-purpose - accounting for structural changes and innovations in the industries they service. Taking a macro-level view of the aviation sector and the regulatory, legislative and procedural settings that underpin it is a welcome first step.

Given the breadth of the topics covered in the Issues Paper, I would encourage the Department of Infrastructure, Transport, Regional Development and Communications (**DITRDC**) to undertake further targeted and specific consultations with industry as the five-year plan is developed and any subsequent changes implemented.

I have provided further detail on the items raised in the issues paper in **Attachment A** below. I have also attached a number of relevant submissions SYD has made concerning some of these matters in previous years for consideration. If you require any further information, please do not hesitate to

Geoff Culbert
Chief Executive Officer

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The information contained in Attachment A responds to relevant parts of the issues paper aligned to the subheadings used in the document.

Part A - COVID-19 response measures

Maintaining essential air connectivity

The maintenance of minimum domestic and regional aviation networks has been critical in ensuring connectivity during the COVID-19 pandemic, but has come at significant cost for airports, airlines and Government. SYD notes that the maintenance of minimum networks during COVID-19 has supported passengers undertaking mandatory quarantine in different states to travel onwards to their home state upon completion, while maintaining intra and interstate connectivity. This has been especially critical for regional areas during COVID-19.

As a general principle, a minimum domestic network should be supported between jurisdictions with any border restrictions being in place on either side. As such, this support should be removed when the aviation sector is operating on a commercially viable basis after restrictions ease.

Given the sharp decline in regional passenger numbers, and the thin margins on these routes prior to COVID-19, there is a case for regional minimum networks to be maintained for a longer period. This may be measured through a metric that considers passenger numbers until such time as it is deemed viable.

Any extensions to minimum domestic and regional network arrangements should continue to be conditional on other industry support being passed through the supply chain, including the rebate on domestic security charges flowing through to airports, as is currently the case.

It should also be noted that subsidised flights - whether they be under the minimum networks, freight flights under the *International Freight Assistance Mechanism* (**IFAM**) or otherwise - leave airports with both variable and fixed costs in processing these services. As airports only get paid on either a per passenger or maximum take-off weight basis in the case of a freight service, airports are in effect underwriting these services while receiving negligible income from them. This is adding further cost pressures to airports at a time when they can least be afforded. This should be accounted for when making any future decisions regarding extensions of minimum network funding programs and other subsidised aviation services.

Preserving aviation capacity

Since April 2020, passenger numbers at SYD have declined by approximately 97%. This has meant the airport is operating at a significant loss every day it remains open to keep essential freight moving and to support Australians returning home.

Industry financial support

While in most cases airports have benefited from JobKeeper, and short-term relief on land tax equivalent payments, most of the specific support provided to the aviation sector has focused on Australian airlines.

Given the considerable financial constraints airports are also operating under, there is a strong case to consider if other short-term specific relief may be appropriate. This may include extending the length of the domestic security charge rebate to airlines beyond the current end date, especially in flying to states where domestic travel restrictions remain in place (conditional on this being passed through to airports to cover these costs) and considering the impact of processing subsidised services on airports.

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There is also a strong case to extend this relief to include international screening and airfield security costs. Typically, international screening and airfield security charges are a recoverable expense for airports (on a cost pass-through basis) as a per passenger charge to airlines, which in turn is then levied by airlines on every ticket sold. Airports do not derive any profit from these charges. While efforts have been made to lower overall security costs, there is a ceiling on how much these Government-mandated charges can be reduced.

With the decline in passenger numbers, airports are now experiencing a significant shortfall between the costs incurred for providing these services compared to what is being recovered (particularly given the restrictions on the current international passenger arrivals). Targeted support on security would also ensure the costs of travel during the recovery period do not create a handbrake on demand (as the shortfall from 2020 security recovery would not have to be met through proportionally higher security charges in 2021). This is particularly relevant for Trans-Tasman travel where the relative proportion of international charges is much higher.

Additionally, the costs for supporting other Government requirements have been shouldered by airports. This includes extra security to assist authorities managing passengers into quarantine and securing the landside arrivals area of the international terminal during the time this was declared a 'customs-controlled area.' Given these costs have effectively been levied on airports as a direct result of implementing key components of the Government's COVID-19 response, there is a strong case these costs should be met by Government.

The support listed above is targeted, time-limited, and focused on keeping airports viable over the short-term to continue supporting essential aviation capacity while the impacts of COVID-19 continue. Beyond the immediate term, the best form of support the aviation sector can receive is not financial relief from government, but in working to safely open borders. In the case of Australia, this comes in the form of domestic travel restrictions being lifted, followed by a safe and phased reopening of international travel at the appropriate time.

Future slot waivers

In the context of the immediate upheaval facing the aviation sector, the Deputy Prime Minister has issued Ministerial Directions providing a blanket waiver protecting airline slots at SYD in each of the most recent Northern Summer and current Northern Winter scheduling seasons.

While the decision to provide certainty to airlines over slot holdings at SYD had merit in the initial stages of COVID-19, going forward it has the potential to cause significant market distortion and competition issues if not managed appropriately.

Firstly, many Australian airlines have stated their intention to, or have already, reduced the size of their fleets in response to expected lower future demand. The blanket waivers in the Ministerial Directions mean airline slots at SYD - in one case for an airline that no longer exists - are potentially protected at pre-COVID levels until March 2022 at the earliest. This will harm the recovery prospects of the industry as it will block new entrants (of which there are a number seeking slots at SYD) from entering the market. It could also block other airlines from expanding services, as slots in peak times will remain unavailable even though the airlines who have these protected slots not having the physical capacity to operate them. The blanket waiver also significantly reduces incentives for airlines to restart operations as soon as restrictions are lifted as the slots continue to be protected whether they are operated or not. Any delay in restarting these services has significant opportunity cost for the Australian economy and could increase costs for consumers with less capacity and competition in the market.

While SYD will provide significantly more detail regarding the *Slot Management Scheme* and *Demand Management Act* in its submission to the Government's current review of Sydney Airport Demand Management, any future slot waivers should be carefully considered and only granted in limited circumstances.

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In principle, airlines should only receive waivers where they cannot physically operate due to travel restrictions as opposed to where they elect not to operate services despite travel restrictions being removed. Sydney Airport firmly believes all segments - regional, domestic and international - need to be treated fairly, however, and every airline that wants access to SYD should be able to get it. It's important to note here that prior to COVID-19, 83% of the slots at Sydney Airport were held by Australian carriers, so any suggestion that international carriers are being prioritised or could somehow access all of the slots currently held for domestic or regional aviation is not accurate.

Maintaining supply lines for air freight exports and imports

Given 80% of air freight is transported in passenger aircraft, maintaining international aviation capacity has been critical to supporting the movement of people and goods throughout COVID-19. This includes medical supply imports, and agricultural and seafood exports, directly supported by the *International Freight Assistance Mechanism* (**IFAM**).

In 2017-18, SYD supported the movement of 45% of Australia's international air freight by value ($53 billion) and volume (530,000 tonnes). Between March and August this year, SYD supported up to 63% of Australia's air freight task by volume. This occurred while Australia's total air freight volumes declined by 24.2% between March and August (SYD's share increased by 0.1% over the same period). This highlights the criticality of maintaining international aviation capacity - not only in bringing people home - but in maintaining freight capacity and trade connectivity.

While IFAM has been vital in maintaining air freight volumes, there are other sensible short-term measures implemented that have assisted this outcome. This includes granting Qantas a dispensation to land B737 freighters during curfew periods. Under the *Sydney Airport Curfew (**Curfew Aircraft**) Instrument* 2015, the 737 would not typically be authorised as it is not on the list of permissible jets allowed to operate during the curfew period. These restrictions have long led to inefficiencies in Australia's air freight supply chain with smaller, older aircraft forced to fly freight overnight. To remedy this, SYD recommends updating the list of permissible aircraft under the instrument to allow all aircraft under a certain noise threshold to land during curfew, rather than specifying (now outdated) types of planes. This would ensure the instrument stays fit-for-purpose into the future as quieter next-generation aircraft enter the market, without the need to continually update the instrument for specific aircraft.

The best way to scale back freight support over time will be working to reopen international borders in a safe and phased manner. This will provide the necessary aviation capacity to put air freight back on a commercially sustainable footing and negate the need for IFAM in the future to support the movement of goods. As noted in the *Maintaining essential air connectivity* section, programs such as IFAM lead to subsidised services being essentially underwritten by airports, which is not a sustainable model.

Part B - the future of aviation: the Government's five-year plan

Reducing the regulatory burden

Sydney Airport welcomes the Government's objective to provide Australia with a "*competitive and efficient aviation sector that provides accessible, high-quality, low cost services.*" As part of the standalone review into the *Sydney Airport Demand Management Act* (1997) (the **Act**) and *Slot Management Scheme,* Sydney Airport will submit the current legislation governing operations at the airport is now over 20 years old and does not reflect the realities of modern aviation. The layers of regulatory burden that sit over SYD, including the curfew, the scheduled and actual movement cap, noise sharing, the regional ring fence, and the rolling 15 minute hour are globally unique and conspire to mean the airport does not run anywhere near as efficiently as it could.

Sydney Airport believes there are important ways to improve the efficiency, sustainability and productivity at the airport, while managing the impacts of noise to maintain amenity for the surrounding community. The fact of the matter is, an enormous amount has evolved since the mid 1990's where public opinion, the airport itself (e.g. navigation technology) and an array of sensitivities around the opening of the third runway significantly influenced the current regulations. It would be stating the obvious to say aircraft are generally safer and much quieter, while the evolution in technology including navigation has been quite remarkable. As part of reducing regulatory burden, while striking the right balance with the community given the step-change in technologies, Sydney Airport believes we should be able to operate the airport to reach its intended capacity. This approach is based on three key principles:

1. <u>Fair and open access for everyone:</u>

    Put simply, we want to accommodate every airline that wants to fly into Sydney Airport. This includes regional, domestic and international airlines, none at the expense of the other.

2. <u>Allow greater flexibility:</u>

    The current rules were set more than 20 years ago at a time when Sydney Airport handled around 22 million passengers a year. In 2019 Sydney Airport handled 44 million passengers, which involves a much higher level of operational complexity and requires greater flexibility. The lack of flexibility in the rules does not reflect the practical reality of operating an airport in 2020. Greater flexibility is required to ensure that the needs of airlines and the travelling public can be met into the future.

3. <u>The Demand Management Scheme should not lead to unintended and inefficient outcomes:</u>

    This includes ensuring that peak slots at Sydney Airport are being allocated and operated efficiently. Peak slots at Sydney Airport are a finite resource, and Sydney Airport believes any efforts to relieve constraints and free up valuable slots would benefit the airport, airlines and the travelling public - providing they are allocated fairly and shared across regional, domestic and international services.

    Beyond these key principles, and more specifically, Sydney Airport will be recommending:

    - Greater flexibility to manage the complexity of daily operations to minimise delays and recover from weather impacts, for example:

        o   Removal of the 15-minute rolling hour

        o   Operating the airport based on 80 scheduled services per hour

        o   Amendments to the application of the rules currently preventing Sydney Airport from operating to 80 movements an hour (being the number allowed in the regulation, but never reached on a day to day basis)

        o   Modernising the regulations to reflect current and future noise outcomes

        o   Fixing inefficient 'fragmented' slot series

        o   Guaranteeing and enhancing regional access in peak times

        o   Improving governance and transparency, including greater alignment to the Worldwide Airport Slot Guidelines (**WASG**).

Given that COVID-19 has seen daily activity at the airport reduce to 3% of passenger levels compared to 2019, now is the optimum time to take a step back and design improvements that will enhance the recovery and growth of the sector while balancing community interests. SYD welcomes the chance to participate in the development of an amended framework, which would enable greater efficiency, transparency, sustainability and safety.

Given the critical role SYD plays in the Australian economy, Sydney Airport believes the Act and slot management should be more consistently reviewed to ensure it reflects the practical reality of operating an airport going forward, while adequately balancing the need for productivity and community amenity. This is sensible given the dramatic changes that will continue to occur with regards to aircraft noise, for example. Advances in aviation technology happen constantly. In turn, the rules and regulations that govern the sector should also be reviewed regularly to ensure they are current and reflect the realities of the sector (e.g. Airbus A350 and Boeing 787 being substantially quieter than widebody jets such as the 747 that were flying 25 years ago).

Given there is a Productivity Commission review into the Economic Regulation of Airports approximately every five years, it would make sense to conduct a review of demand management and slots at the same time to ensure the rules remain fit for purpose.

Airspace management

Airspace management plays a critical role in the pursuit of safety and efficiency outcomes for aviation, as well as being critical to community, noise, and environmental outcomes. Airspace policy and regulatory settings need to constantly evolve, and actively encourage innovation, especially in the context of capturing the benefits of technological advancements.

SYD notes that DITRDC consulted on airspace management and protection in late-2016 and early-2017. SYD's submissions to the previous consultation process remains largely relevant and are attached for consideration. Key points from these include outlining the need to streamline the handling of applications for intrusions into prescribed airspace with the onus on the proponent to provide a safety case and an aviation impact statement to be assessed by DITRDC, CASA, and the airport operator and updating the regulatory parameters governing this. Another key component that remains is strengthening the declaration process around an airport's prescribed airspace, especially in allowing airports to 'roll over' prescribed airspace from the previous masterplan to the next where no changes are proposed following a review.

SYD believes it is important for the existing airspace protection regulations to be updated consistent with this submission. Additionally, we note further consultation regarding airspace management, separate to the issues paper, will also occur in the lead up to a new *Australian Airspace Policy Statement* due to be published in 2021.

A more recent issue has arisen concerning the definition of 'controlled activities' within the *Airports Act 1996*. In 2019, SYD was advised by the DITRDC, based on legal advice it had received, an activity involving a penetration of prescribed airspace was *not* a controlled activity if that activity involved something that was not attached to or in physical contact with the ground. As such, these activities no longer require Commonwealth approval under the *Airports (Protection of Airspace) Regulations 1997* and are therefore unregulated.

This means larger next-generation container vessels transiting to and from, or berthing, at Port Botany will not be subject to any Commonwealth approval, despite the fact they will penetrate SYD's prescribed airspace and, in certain weather conditions, will pose a potential risk to aircraft using the parallel north-south runway. A copy of a submission to the Department made earlier this year - including a proposed regulatory solution - is attached.

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During COVID-19, there has also been an observable shift towards next-generation aircraft facilitated by many carriers. Qantas retiring 747s and grounding A380s indefinitely is emblematic of this trendline. Given the change in the operating fleet mix, there are opportunities to consider other benefits that can flow from this shift towards enhanced technologies. With many next-generation aircraft having greater technological capability, there is a significant opportunity to look at advances in navigation systems to improve the approach paths available to aircraft landing at SYD. The benefits these technologies could yield are significant.

For example, Required Navigation Performance (**RNP**) technology allows aircraft approaches to be undertaken on pre-determined flight tracks at higher altitudes. This has the potential to improve noise outcomes, while achieving better safety and environmental outcomes for airlines. While RNP technology is being implemented at many other Australian airports, and around the world, the current Sydney airspace management rules do not allow for the use of this important technology. As Airservices Australia is currently focussed on the redesign of airspace management in the Sydney basin - as part of the planning for Western Sydney Airport opening - the use of RNP technology should be a key consideration in this work.

There are a range of other important opportunities to enhance the efficient operation of Sydney Airport that should also continue to be a focus of Airservices Australia. In particular, the implementation of Airport Collaborative Decision Making (**ACDM**), which saw such constructive engagement between airlines, airports and Airservices Australia, should be prioritised. The implementation of ACDM, along with other improvements such as runway balancing at Sydney Airport, would have substantial benefits for the airlines, airports and the travelling public through reduced in-flight delays. The east-west runway has been closed during COVID-19 to accommodate grounded aircraft. Throughout this period the airport has continued to operate safely and effectively under a range of wind conditions. In line with the comments earlier in the submission about the need to periodically review legislation to ensure it is reflective of modern technologies and practices, the ability to operate on the more efficient parallel runway modes would ensure greater productivity can be achieved at Sydney Airport delivering benefits for airlines, the travelling public and the economy. The benefits of these changes collectively could also see material improvements in efficiency, noise and emissions outcomes.

Airline access to domestic and international routes

Access to international routes relies on available capacity under *Air Services Agreements* (**ASAs**) brokered between governments. Layered on top of this in the case of SYD is the direct linkage to the availability of slots as prescribed under the *Slot Management Scheme* and associated legislative and regulatory structures. These structures also dictate access to slots for domestic and regional routes. SYD will make a separate submission to the *Sydney Airport Demand Management Discussion Paper* concerning the latter issues.

It is prudent to focus on policy and regulatory settings on ASAs and slots (including slot waivers as referenced in the section on *Preserving aviation capacity*). Simple changes in the approach to ASAs and the demand management at SYD could yield significant economic benefits to NSW and Australia over the long term. For context, a typical year-round daily international service contributes $122 million to the Australian economy, supporting 1,300 jobs.

Air Services Agreements

ASAs are the structure underpinning all international air travel and freight capacity between countries, as well as setting out permissible air freight capacity. ASAs are the structure that ensures access to key markets and secures capacity and growth opportunities that are crucial to Australia's long-term strategic and economic interests. Getting the balance right in the policy settings underpinning ASAs can provide long-term benefits including economic growth and employment in a wide array of industries including tourism, agriculture, education, hospitality, and the arts.

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In the context of the devastating impacts on global aviation of COVID-19, there is ample opportunity to enhance Australia's ASAs by focusing on further liberalisation of air traffic rights for the long-term benefit of Australia. Given international travel is likely to take several years to fully recover, and with airlines making route decisions on where to fly with reduced fleets, ASAs will play a crucial role in both short-term recovery and longer-term growth opportunities.

Australia is an end-of-line destination for travel. It follows that 'fifth freedom' rights allowing for the carriage of passengers between two countries that are different from the home country registration of the airline operating the flight - if it originates or ends in the home country - is increasingly critical. Enhanced fifth freedom rights have the potential to significantly reduce the cost of flying to Australia - something that has always acted as an inhibitor to market expansion here. Enhanced fifth freedom rights with other significant aviation hubs will improve the connectivity of Australia to other markets and the associated economic, trade and employment benefits that flow from this, especially in connecting to potentially lucrative and growing markets in countries across South America and Africa.

Where they are in place, bilateral open skies agreements have played a critical role in driving growth in visitor numbers and export opportunities to countries such as New Zealand, the United States, and China. In all future negotiations concerning ASAs, open skies agreements should be the aim of the Australian Government to boost tourism, export opportunities, employment and the economy more broadly. As global economies seek to recover from the impacts of COVID-19, there should be particular and continued focus on developing multilateral open skies agreements, especially with the EU and through ASEAN. This will also play a long-term critical role as next generation aircraft such as the B787 and A350 extend the range of travel possible to and from Australia, potentially opening up capacity to service new and expanding markets.

Current ASAs also contain certain restrictive stipulations, which work to the overall detriment of aviation market expansion in Australia. This comes in the form of governing how many services or seats are permitted to operate to Australia's major airports - Sydney, Melbourne, Brisbane and Perth. In contrast, in many cases, other airports are able to secure unlimited access. This restriction assumes international services to Australia's major airports are competing for market share with smaller Australian ports, and that providing unlimited access to these ports will result in sustainable international aviation growth to regional Australia. There is very little evidence showing these restrictions deliver benefits to other Australian ports.

Inbound passenger traffic shows a preference for major gateways such as Sydney, before dispersing to other ports through the domestic network. This will be particularly important in an environment following COVID-19 as airlines will likely operate reduced fleets that will dictate route decisions. If sufficient capacity is not available to major ports, there is a very real risk Australia will lose global aviation market share to other countries. Put simply, if airlines cannot access major Australian cities, they will simply not fly to Australia.

Further, ASAs also govern air freight capacity. Cargo and belly-freight is often the difference between making a passenger service profitable for an airline. During the COVID-19 crisis, the ability of airlines to utilise these rights provided important revenue, while ensuring air freight capacity for agricultural exports and supporting critical imports. As mentioned, it is estimated around 80% of airfreight is carried in the hold of passenger aircraft. Growing access for international passenger services to Australia will allow greater opportunities for trade and will help Australia create new markets for its goods, alongside increasing export volumes to existing locations. Imposing limits of any kind on freight movements is counter to the purpose of these agreements and should be considered as an artificial trade barrier that must be removed.

Airservices Australia

Specifically for SYD, the policies and procedures adopted by Airservices Australia in managing the airport's airspace can act as a limiting factor on the overall efficiency and the productivity of this critical infrastructure.

As it stands, Airservices Australia limits widebody arrivals between 6am and 7am - a critical time for international arrivals into Sydney in order to make airlines' global networks function as Australia is an end-of-line destination for airlines.

SYD is subject to the movement cap of 80 per regulated hour measured on a 15 minute 'rolling hour' basis. To manage a perceived risk of breaching the cap, Airservices Australia limits movements to 76-78 per hour, further artificially restricting the operational efficiency of SYD. While these issues will be explored in detail within the parameters of the review into demand management at SYD, changes to these policies and procedures would yield significant benefits in terms of expanded services as well as the substantial tourism, trade, and employment benefits that would arise from removing these restrictions. As noted previously, this has the potential to lead to significant economic gains considering a single year-round daily international service contributes $122 million to the economy and supports 1,300 jobs. Adding even 2-3 flights per hour over the course of a morning peak, therefore, has significant economic upside.

As mentioned earlier in this paper, the implementation of ACDM, focussing on runway balancing and the redesign of airspace to allow for RNP approaches should also be a focus for Airservices Australia.

Facilitating new and emerging technologies

As a general principle, an important aim of the five-year plan should be to have the right policy settings in place to support innovation while promoting flexibility to support new and emerging technologies in aviation. As has been referenced earlier in this submission, as with all sectors technological advancements in aviation continue to be profound. In turn, the rules and regulations that wrap around aviation should not be static to ensure there is an efficient, safe, sustainable and secure sector.

Emerging technologies such as drones and electrical vertical take-off and land vehicles offer incredible opportunities to innovate, change supply chains, and create jobs. Widespread adoption of technology of this nature, however, must be carefully and methodically countenanced against aviation safety, especially around sensitive airspace close to major ports. Regarding these issues, SYD's submission to the *Issues Paper on Emerging Aviation Technologies* is attached for consideration.

In the aftermath to COVID-19, there is also likely to be a much greater focus on enhancing contactless processes utilising technological solutions across a variety of functions at airports. In that vein, the use of biometric technology at airports presents a very significant opportunity to modernise not only security settings at airports, but to improve the whole customer experience for travellers.

SYD has partnered with Qantas to trial biometric technology across a range of functions from check-in to boarding. While this trial in isolation was a success, a partnership between Government, airports, and airlines in this space would yield many benefits. It would allow for improved security and biosecurity outcomes by rationalising and improving both inbound and outbound screening processes.

At the same time, the overall passenger experience at airports would be enhanced through a more seamless end-to-end process. For example, the time taken to clear checkpoints would be significantly reduced, while also allowing for functions including check-in, bag drops, and boarding to be entirely contactless. Coming out of COVID-19, this will be particularly critical in maintaining passenger confidence to travel while improving overall outcomes for the industry and Government.

Safe, secure and environmentally sustainable aviation

Australia has an enviable reputation globally when it comes to aviation safety. As with all regulation, however, there is opportunity to ensure frameworks remain fit-for-purpose.

Safe air travel

As the issues paper notes, it is critical Australia maintains a strong aviation safety system to ensure confidence to the travelling public.

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Aviation safety necessarily relies on collaboration between airports, airlines, all three levels of government, and businesses and individuals with activities impacting upon prescribed airspace. SYD believes there is scope to improve collaboration between the regulators and industry participants to ensure more expeditious resolution to issues, especially as it relates to off-airport developments. This would allow for better collaboration and outcomes that maintains the primacy of aviation safety while balancing against the need to support the efficient movement of people and goods.

Any changes to consultation and governance processes should be co-designed between the regulators and industry to ensure the most effective and efficient mechanisms can be established.

Secure aviation

As noted through the Australian Government's recently released *Cyber Security Strategy* - whether online or physically at the airport - security policy settings need to evolve to combat new and emerging threats.

SYD notes that specific aviation security regulations are out of scope of the issues paper, with governance and consultation processes in-scope. From SYD's perspective, the existing consultative fora managed by the Aviation and Maritime Security division of the Department of Home Affairs have generally operated collaboratively and efficiently.

As COVID-19 has shown, revenue streams for all parties in the aviation sector have come under considerable strain. While there is a need to continually improve security outcomes, any new requirement on industry generally adds significant upfront and ongoing compliance costs. Security in the context of airports is inherently serving a public good, however, the funding model is not reflective of this. The current model whereby the Government mandates security requirements with the capital or operating costs met upfront by airports and then recovered through airlines (levied on passenger tickets sold) is under increasing strain.

As a result, any new requirement imposed on industry needs to carefully consider the flow on costs and should utilise a form of Government funding for the foreseeable future. This could be done through redirecting the excess funds raised by the Passenger Movement Charge, for example, which at one stage was collecting approximately double the cost of providing border services.

Any added requirements should continue to be co-designed in a genuine and collaborative manner through the existing fora. This also allows for the full examination of issues in an effective way, including giving due consideration as to whether costs are commensurate with the risks that need to be managed.

More generally, COVID-19 has put a spotlight on the benefits of more contactless security procedures moving forward. SYD supports due consideration being given to these when considering future regulatory and operational settings in areas such as security screening, border control, and as set out above, any future use of biometrics. While noting this, the impacts of COVID-19 have severely limited the ability of industry to absorb any further costs. This needs to be at the forefront of any changes levied on industry.

Environmentally sustainable aviation

A sustainable aviation sector is vital to the future of the entire industry. SYD recognises the important role airports can play in driving sustainability outcomes and has committed to carbon neutrality by 2025. SYD has also taken active steps in linking our corporate funding and debt profile to climate outcomes through taking out Australia's first syndicated sustainability-linked loan in 2019 worth $1.4 billion.

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While existing initiatives such as the Safeguard Mechanism and the *Carbon Offsetting and Reduction Scheme for International Aviation* (**CORSIA**) are welcome, there is still a lot of headroom for innovation in this space. Not only do these opportunities drive positive environmental and sustainability outcomes, they also form significant economic opportunities Australia can capitalise on. At the same time, there is a need for a continual focus on good environmental management and ensuring regulatory settings remain fit-for-purpose regarding the day-to-day management of airport sites.

a.   Opportunities for innovation

The aviation industry has made positive strides towards more environmentally sustainable outcomes. This has been particularly notable throughout COVID-19 as older aircraft such as Boeing 747s are retired and next-generation aircraft form a greater share of the global fleet mix. There are also exciting developments underway such as electrification of aircraft and using alternative fuel sources. Not only do these developments have the potential to promote positive environmental outcomes, they also present a significant economic opportunity to Australia if managed well.

The use of sustainable aviation fuels is being successfully stimulated in other parts of the world, most notably in Europe and California. With the exception of Queensland, which has a strong focus on the bioeconomy, Australia currently has limited policy settings in place to expedite the transition towards the greater use of sustainable aviation fuels. COVID-19 has shown the importance of building resilience in our own domestic supply networks, especially for fuel. A detailed industry framework aimed at fuel producers, technology developers, and the broader aviation sector should be developed.

This framework should focus on expediting the commercial development of these fuels, ideally in Australia. This would ensure sustainable aviation fuels can be meaningfully introduced in the Australian context, with the aim of producing these fuels at the economies of scale required to be commercially viable for airlines over time.

Government leadership and targeted investment is required in areas such as policies to secure feedstock supply and to leverage the potential of waste and resource recovery solutions for local sustainable fuel production. Incentives to enable the repurposing of fuel production assets for alternative fuel technologies, and facilitating partnerships to support the required certification of such technologies are also key areas Government can play a leadership role. This would present significant economic and employment opportunities for Australia, while increasing Australia's self-reliance for critical fuel supplies.

The Federal Government is also rightly focused on the economic and export opportunities hydrogen offers. The *National Hydrogen Strategy* and the underlying *Technology Investment Roadmap* should consider a focus on green hydrogen, including the potential application of hydrogen for aircraft and other on-airport uses, backed by research and development funding, to fully harness the economic potential this offers. The CSIRO's recent *Opportunities for hydrogen in commercial aviation* report highlights the opportunity for Australia to leverage hydrogen's potential for aviation in this space.

b.   Australian Environment Protection Regulations 1997 (AEPR)

SYD considers there is a significant opportunity to update the AEPRs, which were last meaningfully set in 1997. SYD's 2019-2024 *Airport Environment Strategy* goes well beyond the requirements under the current AEPRs by looking at best practice management and controls. A review with a view to updating the AEPRs should be undertaken considering developments in environmental management practice alongside the effectiveness of enforcement mechanisms in place. This should include due consideration of the effective management of Per- and polyfluoroalkyl substances (**PFAS**) on a 'polluter pays' basis.

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Greater local decision-making for federally leased airports

SYD welcomes the focus of the issues paper on balancing appropriate regulation with the need for flexibility to ensure unnecessary constraints are not placed on airports.

As the issues paper notes, given the long-term nature of investments, airports necessarily rely on a stable regulatory environment. While acknowledging this, it is equally important that regulatory settings be regularly reviewed in order to balance objectives with impediments to investment and efficiency gains for airports, airlines, and other stakeholders.

Major Development Plans

One area of particular relevance here is the requirements under the *Airports Act 1996* for Major Development Plans (**MDPs**). The existing process for preparing MDPs is complex, lengthy and costly. The current process requires drafting four versions of an MDP through a five-step process before it is complete, taking approximately 18 months. SYD has attached a document detailing recommended changes that will both improve and streamline the MDP process, including how it interacts with the *Environment Protection and Biodiversity Conservation Act 1999*.

Previous sunsetting process

SYD notes DITRDC has undertaken numerous consultations in recent years concerning the regulation on the sunsetting process. We have attached our previous submissions to the process, which remain broadly relevant. SYD would also welcome the opportunity to meet with the Department to discuss these issues further.

Funding of regional airports

Capital and operational funding for regional airports is critical to keeping the cost of travel down for regional communities, supporting the overall viability of these services, and enhancing regional access to capital city airports.

In the context of SYD, regional aeronautical facilities and services have been subject to price notification since July 2002. During this time, pricing for regional services has remain static, meaning since 2002 prices have fallen by approximately 50% in real terms, further keeping the cost of regional travel down.

The Federal Government's response to the recent Productivity Commission review into the Economic Regulation of Airports provided in-principle support to allowing SYD and regional carriers the ability to enter into confidential commercial arrangements. SYD supports the implementation of this in a timely manner as it further offers the ability to expand the range of facilities and services available to regional operators at the airport.

Aviation skills and workforce development

Aviation has been one of the most affected sectors in terms of loss of employment during COVID-19. The flow-on effects across other sectors such as education, hospitality, the arts, and tourism, which rely on aviation, have also been significant. In the June quarter alone, in the Bayside Local Government Area (where SYD is located), it is estimated about 16,000 jobs were lost and a further 16,000 were at-risk as they were reliant on JobKeeper.

While the Government is to be commended for swiftly implementing JobKeeper, and having a significant focus on employment programs, given the high level of uncertainty over recovery timeframes, there is real risk of 'skills drain' from the aviation sector. As the issues paper notes, this includes a wide variety of critical functions from ongoing professional training requirements of pilots, through ground handling and security screening. If not managed appropriately, there is a real risk these jobs may be lost permanently and lead to skill shortages as the industry starts to recover over time.

Sydney Airport

SYD is supportive of any programs and initiatives that boost retention in the sector, including diversification of training that leads to new job opportunities within aviation.

Sustainable funding for Australian aviation services

Like airports, airlines and other businesses reliant on aviation, the traditional revenue streams for aviation services provided by Australian Border Force, the Department of Agriculture, Water and the Environment, the Civil Aviation Safety Authority and Airservices Australia have come under considerable strain during COVID-19.

Looking to the future, it is prudent to consider the sustainability of funding arrangements for Government departments and entities providing services to the aviation sector. A wholescale review should be undertaken of all fees and charges in providing aviation services, including considering the sustainability of the aviation sector being relied upon to fund these services. This has shown itself to be particularly problematic in the context of COVID-19 and will continue to remain an issue as the industry seeks to recover.

For example, at one stage the Passenger Movement Charge (currently levied at $60 per departing international passenger) was raising approximately double the amount it cost to administer border services. While a 5-year moratorium on increasing the PMC was put in place in 2016, these costs should be subject to frequent review as they have a distortionary effect on the market in terms of dampening demand as it adds to the cost of travel. It also worth considering whether these funds should be deployed to support other critical functions that serve a public interest such as in meeting security costs.

This will be particularly important as the aviation sector moves into the recovery phase. Any changes to funding arrangements that increase costs for aviation businesses, also increases the cost of travel. This could have an adverse impact on the recovery prospects of the sector and the jobs and economic benefits that flow from it throughout the whole economy.

Sydney Airport