



Adelaide Airport submission to the Australian Government's Aviation Green Paper

30 November 2023

Director, Aviation White Paper Project Office
Aviation White Paper
Department of Infrastructure, Transport, Regional Development, Communications and the Arts
GPO Box 594
Canberra ACT 2601

Via electronic submission – Aviationgreenpaper@infrastructure.gov.au

Dear Director

Adelaide Airport Limited and Parafield Airport Limited (“**together AAL**”) as operators of Adelaide and Parafield Airports are pleased to make a submission to the Australian Government’s Aviation Green Paper (**Paper**). AAL welcomes the release of the Paper and the opportunities it presents to positively shape our aviation industry.

This submission provides our views on several key themes as raised in the Paper and can be read in conjunction with the submission from the Australian Airports Association (AAA).

Executive summary

The major points made in this submission can be summarised as follows:

- **Aeronautical Pricing Principles** – We do not consider that the Aeronautical Pricing Principles need to be mandated. The additional regulation would add cost, time, complexity and unintended consequences. Mandating would be detrimental to investment, competition between airports and airlines, and the growth of the aviation industry.
- **Development** – The Major Development Plan monetary threshold should be removed to reduce the time, cost and uncertainty involved in delivering non-sensitive investment and to ensure competitive neutrality with off airport developments. There are other triggers already prescribed in legislation for sensitive development. If the monetary threshold remains, we support the proposed increase of this to at least \$50 million (but subject to indexation).
- **Lease Terms** – Airports should be provided with the option to extend their lease terms now to provide certainty of tenure to underpin long-term development.
- **Sustainable Aviation Fuel** – The Federal Government does need to play an active role to facilitate the transition of local industry to Sustainable Aviation Fuel.
- **Border Agencies** – The Federal Government should ringfence existing revenue from the current Passenger Movement Charge to provide adequate Federal Border Agency resourcing to meet customer demand. Deep consideration should be given to the use of technology at the border and to ensure efficient Border Agency infrastructure requirements.
- **Airservices Australia** – Control towers need to be adequately resourced. Airservices’ operating levels must be about to support current and forecast levels of aviation movements. Airservices should also be held accountable for legacy PFAS contamination.
- **Airports Environment Officer (AEO) charges** – The proposed full AEO cost recovery levy should not be implemented as it runs counter to airport lease terms and the founding privatisation concept of competitive neutrality. Existing or alternative revenue sources and efficiencies should instead be considered.
- **Critical Infrastructure** – The Federal government must use its constitutional quarantine power to take control of national quarantine arrangements including domestic border controls.

Background

Adelaide Airport is the aviation gateway to South Australia. Since May 1998 AAL has been custodian of a 99 year operating lease for Adelaide and Parafield Airports from the Commonwealth Government. Adelaide Airport is the fifth-largest domestic and international airport in Australia processing more than 8 million passengers on an annualised basis. Adelaide Airport is the state's largest single site employment precinct directly employing more than 10,000 people on and off airport and contributing to the generation of a further 12,700 jobs. The airport contributes \$3 billion to the South Australian economy, equivalent to 3.1 per cent of Gross State Product. Adelaide Airport has transitioned from an aviation and infrastructure facility to a broad-based economic activity node, encompassing a variety of aviation and non-aviation services, facilities and developments. It is also a critical transport hub connecting South Australia with global and domestic markets.

The current location of Adelaide Airport (since 1954) was very well planned as an integrated transport node that has set Greater Adelaide up for future growth. Adelaide Airport has been in a state of expansion since the inaugural scheduled flight on 16 February 1955 and, with the continued facilitation of investment, there is forecast to be well over a century of growth potential on the current site. This growth will be facilitated by quieter, more fuel-efficient next generation aircraft. We are committed to investing in our infrastructure and will be investing \$1 billion in capital investment over the next five years, of which over half will be on major aviation infrastructure projects.

Parafield Airport is South Australia's premier general aviation airport and is a major world standard international training airport. Pilots trained at Parafield Airport go on to fly international services to and from Adelaide Airport. The provision of commercial, retail and industrial activities contributes to the viability of the airport as a business enterprise and provide an economic core and employment centre for the northern suburbs of Adelaide and beyond.

AAL is owned by large superannuation funds who have held ownership since privatisation with significant numbers of members holding an indirect investment in our airports to support them in their retirements. Our investors are ready to support the long-term infrastructure required for our airports and understand the critical importance of aviation and tourism to the Australian economy.

Discussion

Chapter 3 – Airlines, Airports and Passengers – Competition, Consumer Protection and Disability Access Settings

Aeronautical Pricing Principles (APPs)

AAL considers that the APPs serve as a useful context and starting point for commercial negotiations, consistent with APP(c)(i) that "prices ... should be established through commercial negotiations undertaken in good faith ...".

All AAL's negotiations have been conducted with the APPs as an important context. However, AAL:

- Does not see any benefit in mandating the use of the APPs; and
- Considers that further codifying the APPs to the extent necessary to objectively enforce the mandatory use would be detrimental to investment, competition between airports and airlines, and industry growth.

Mandating use of the APPs would create perverse outcomes. The only negotiations in which AAL has not used the APPs are:

- Pricing at Parafield Airport, where traffic volumes are insufficient for prices to be able to generate the appropriate return on assets that should be achieved under APP(a). AAL is aware that other smaller airports, where costs substantially exceed commercial prices, do not find several elements of the APPs relevant.
- A temporary extension of existing pricing at Adelaide Airport during the Covid pandemic, when application of the APPs would have substantially increased aeronautical prices.

As a practical matter, AAL does not consider it likely that it will ever undertake negotiations without the APPs as critical context and a starting point. In addition, the domestic and international airlines typically do value their use – airlines are large organisations with strong bargaining power. We would likely not reach an agreement if an airline or airlines believed that following the APPs would result in a lower price (or higher service for the same price). The airline negotiating power relative to AAL has been recognised by the Productivity Commission in its past reviews.

However, in negotiating commercial agreements in the context of the APPs, the commercial negotiations remain flexible commercial negotiations with compromises by all parties. This is consistent with the policy intent of the regulatory framework. It would not be possible, under these agreements, to objectively audit whether the agreed prices follow all of the APPs, since (for example):

- The airport and airlines frequently do not reach agreement on the expected traffic volumes (expected revenues) or efficient costs [APP(a)(i)].
- The airport and airlines frequently do not agree the appropriate return [APP(a)(ii)].
- The pricing regimes do not always explicitly re-consider incentives to reduce costs or improve productivity [APP(b)], the appropriate sharing of risks [APP(c)(ii)], multi-part pricing or price differentiation [APP(d)(i)] or the desired service levels [APP(e)], unless either the airport or airline is seeking to change the status quo.
- Airport and airline agreements may include elements that are not related to aeronautical costs and revenues, such as elements designed to promote collaboration, product differentiation, or non-aeronautical services.

AAL does not consider making the use of the APPs mandatory to be meaningful unless many of the principles were extensively codified. Such a codification would be detrimental to aviation competition and growth, since it is difficult to envisage how they could be mandated without enforcing a model where every airline must accept an identical service and price. Mandating the APPs would make it more difficult for airports to negotiate agreements that reflect the business models, growth plans and service priorities of different airlines. If this inhibits an airport's ability to offer a differentiated price for an airline seeking to grow using a lower service-lower cost strategy, it will undermine airline growth and competition.

Disability Access

AAL is strongly supportive of improved and equitable aviation accessibility. Any improvements must be aligned across industry to ensure consistency of approach for those passengers with a disability. There must be clarification around responsibilities of airports and airlines and the ability to recover cost of service. Disability accessibility should also encapsulate hidden disabilities.

Chapter 5 – Maximising Aviation's Contribution to Net Zero

AAL has finalised a detailed decarbonisation strategy to validate the pathway and abatement measures to achieve a 100% reduction in scope 1 and 2 emissions by 2030. We have also modelled our scope 3 emissions (relating largely to in-flight fuel burn) and have developed a range of conceptual initiatives that will require significant work with our partners (including Government) to seek to achieve our target of net zero by 2050.

Adelaide Airport recognises the important role we play to reduce carbon emissions in the aviation sector. Carbon emissions from aviation are currently ~2-3% of global emissions and, with forecast increases in demand for travel and decarbonisation of other modes of transport, this contribution will increase. An aviation industry priority is to accelerate the transition of our industry to Sustainable Aviation Fuel (SAF), while seeking to control the cost of that transition. We consider that the Federal and State Government have roles to facilitate initial high risk private investment in SAF including:

- Ensure there is aligned policy and regulatory positions supporting the industry adoption of SAF.
- Provide support to develop at-scale Australian power-to-liquid SAF production sovereign capability.
- Facilitate the cost of transition, noting the similar role that governments are playing globally.
- Consider the fuel quality standards and the constitution/definition of SAF.
- Provide incentives to accelerate research and development projects on both SAF and power to liquid.
- Protect Australia's export of feedstocks which is a risk for producing SAF.

- Provide support for electric aircraft at flight training schools to enhance skills training and mitigate noise impacts on surrounding communities.

Chapter 6 – Airport Development Planning Processes and Consultation Mechanisms

Exercise Early Lease Renewal Option

Airports should be provided the opportunity to exercise their right to extend their head lease term as soon as possible. The initial term has less than 25 years to expiry making it increasingly restrictive to airport development plans. Airports have a leased obligation to develop airports, but the break in the lease term works against this. Developers and their financiers require certainty around airport's right to extend their leases with the Commonwealth when considering whether to invest on airport land. Developer valuers typically penalise developers by not attributing true development value beyond the lease option period – this creates significant practical barriers to both equity and debt investors. An early lease renewal option would be at immaterial administrative cost to the Commonwealth and would provide certainty for projects and investors. This additional development would facilitate jobs and economic growth and support the local construction and tourism economies.

Major Development Plans (MDP)

AAL is supportive of the removal of the MDP monetary threshold given there are other appropriate triggers for an MDP already prescribed in the *Airports Act 1996*. The removal would then reduce time, cost and uncertainty involved in delivering investment and would ensure competitive neutrality with off airport developments. We note that if this approach is not agreed, and the threshold remains, we strongly support the proposal to increase the MDP threshold from \$25 million to at least \$50 million but also consider that construction cost indexation should apply to this threshold.

Chapter 7 – General Aviation

Parafield Airport is the principal general aviation and pilot training airport in South Australia, one of the busiest airports in Australia and is a significant economic and employment generator to the local economy. Technological advancements in aircraft will provide opportunities for general aviation. There is an opportunity for the State and Federal Governments to support advancements in electric aircraft and encourage adoption for flight training schools to reduce aircraft emissions, minimise noise impacts on surrounding communities, whilst further supporting education and skills training.

Chapter 8 – Fit for Purpose Agencies and Regulation

Department of Home Affairs and Border Agencies

The Government should invest all of the significant proceeds of the Passenger Movement Charge (PMC) into Border Force and other Border agency resourcing (and technology developments) necessary to meet international demand at each international airport. Transparency around the utilisation of the PMC revenue would improve trust from passengers and taxpayers.

In addition to representing a loss to the government and economy, the under-resourcing of Border Force creates an uneven playing field between different airports and allows capacity bottlenecks that entrench existing airlines at the expense of new entrants.

The Government should mandate the efficient infrastructure (quantity and location) requirements for Border Agencies. The Government should mandate that Border Agencies engage in airport redevelopment projects and provide information and engagement in efficient timeframes. Adelaide Airport has had direct experience with changing border agency requirements and lack of timely engagement that had the result of delaying the delivery of airport infrastructure and also increasing costs for consumers.

Airservices Australia (AsA)

AsA resourcing and funding should be increased to ensure air traffic control operations can support both current and growing levels of traffic and support aviation growth.

The Government must take greater leadership in PFAS management. Greater support must be provided to hold the polluter (Airservices Australia and its predecessors) responsible, rather than pushing back the cost of managing this issue onto other stakeholders. Where the Federal Government has been passive and not shown ownership, airports have had to incur significant costs and potential reputational damage in order to manage PFAS and comply with the PFAS National Environmental Management Plan, particularly when undertaking developments.

Airport Environment Officer (AEO) charging and cost recovery arrangements

AAL is concerned by Federal Government intent to pass through a more than triple increase in AEO costs. We urge the Federal Government to consider the following before implementing their “full cost recovery levy”:

- **Efficiency** – whether adequate scrutiny has been applied to Government’s own model of service delivery to ensure the most efficient structure and method of delivery has been adopted and that any unnecessary costs have been mitigated or removed, noting that a full cost recovery model does not naturally incentivise robust cost management practices.
- **Sovereign risk** – to implement the full cost recovery levy, the Government would need to legislate over the top of certain provisions of AAL’s headleases. This is likely the case for other airport headleases around the country. The headleases are documents that were negotiated and agreed as part of the privatisation of the airports and attempts to unilaterally override them will give rise to significant perceived (if not actual) sovereign risk. Such risk has the potential to significantly undermine the public’s confidence in Government and detrimentally impact the Government’s ability to contract with any private organisations or other sovereign entities.
- **Competitive neutrality** – the Paper itself notes the significance of non-aeronautical commercial development in driving a strong aviation sector. Cost increases in line with what has been proposed are materially out of step with other State based environmental regulatory regimes (relative to risk) and as such have the potential to significantly disadvantage those non-aeronautical commercial developments on airport at the cost of the aviation sector more generally.
- **Other revenue** – when assessing whether particular activities are cost-recovered, regard should be had to other taxes (for no service) paid by airports. For example, ex gratia land tax payments, ex-gratia council rates and the PMC. We would encourage the Government to take a more holistic approach to the revenue contributions of aviation operations, rather than considering the AEO charging arrangements in isolation.

Other matters for consideration

Critical Infrastructure

AAL ensures that we build resilience of our infrastructure into our planning and the operation and maintenance of assets. Government efforts to ensure minimum cyber security standards for all critical infrastructure should continue.

The Covid pandemic identified the dormant sovereign risk of state border closures in the event of the known risk of a significant communicable disease. To address this risk of decentralised border closures, the Federal Government should utilise its Constitutional quarantine powers (s51(ix)) to regulate in this space and create certainty and harmonisation across the nation. Lessons of the last pandemic have not yet been implemented.

Conclusion

Thank you for the opportunity to contribute to the future of the aviation industry. Please do not hesitate to contact us if you have any queries in relation to the above or require any additional information.

Yours sincerely

ADELAIDE AIRPORT

A handwritten signature in black ink, appearing to read 'Brenton Cox', with a stylized, cursive script.

Brenton Cox

Managing Director