

BCA

Business Council of Australia

Aviation White Paper

Pre-Green Paper submission

March 2023

About this submission

The Business Council of Australia appreciates the opportunity to make a submission to the Aviation White Paper process. We represent Australia's largest employers, across the economy, including companies both directly involved in the aviation industry, as well as users and beneficiaries of aviation services.

Our principal policy goal is for the government to help improve the efficiency of the industry by encouraging investment and innovation, removing unnecessary red tape, and fostering opportunities to further develop Australia's place in supporting emerging technologies.

As a submission prior to the green paper, this document highlights some high-level areas that we believe should be included in the White Paper. We look forward to further engaging in the process over the coming months, following the release of the green paper.

Aviation industry

The aviation industry is global, highly competitive, and capital intensive. It has clearly been through a difficult period, particularly between 2020 and 2021, with border closures both internationally and domestically. Data to the end of 2022 shows that passenger traffic has not yet recovered to pre-pandemic levels, but there have been significant gains through last year.

To illustrate this, in 2022 BITRE data shows that the industry carried over 50 million passengers domestically across the country, a more than doubling of the 23.5 million passengers carried in 2021. However, this compares to the 64 million passenger trips in 2019.

The recent reopening of China represented the last major travel market for Australia that was restricted, with border settings now largely normalised across the globe. Like many other industries however, aviation is facing other global headwinds, including inflationary impacts on inputs, skills shortages, supply chain delays, and rising interest rates.

Reporting from the IATA shows that similar to trends seen in Australia, global passenger traffic is rebounding but has not yet reached pre-pandemic levels. Current expectations are that passenger numbers will have fully recovered by 2024. Air freight however has declined over 2022 from its peak in 2021, a decline replicated in Australian BITRE data. Reporting from KPMG shows that globally airlines lost around US\$6.9 billion in 2022. This is a significant improvement on 2020, in which there were combined losses of US\$140 billion, and US\$42 billion of losses in 2021.

Ultimately, the important take away for the White Paper in formulating policy is to recognise that aviation is highly vulnerable to disruption, with participants having a real need to be nimble, and yet facing long lead times in terms of its capital intensive asset base. Government policy and regulation needs to be fully cognisant of this going forward.

Key policy areas

Broadly, the White Paper should explore long term demand in both freight and passenger segments, and the aviation system as a whole, to ensure the national network operates efficiently. There would also be value in examining the network of regional airports and developing a ten-year regional airport capacity plan that links to regional economic development capacity.

Beyond this, the following areas are of particular interest to the Business Council and our members.

Sustainable aviation fuels

Given the distances necessary for travel around Australia, and from Australia to the world, opportunities to reduce emissions through a substitution of aviation with other travel modes (such as high-speed rail) are unlikely to be practical.

Sustainable aviation fuels will therefore be essential to reducing the carbon emissions from the aviation industry, by providing significant lifecycle reduction in emissions compared to traditional jet fuel. This is particularly so given that alternative aircraft propulsion and power sources (such as electric or hydrogen aircraft) are very much in their infancy.

The priority for the government should be both in supporting the broader deployment and cost reduction of sustainable aviation fuels, as well as a focus on development and manufacturing of these fuels in Australia with the goal of supplying the global market.

The government has clearly recognised the potential of sustainable aviation fuels, with the establishment and recent first meeting of the Australian 'Jet-Zero Council' in Avalon, which includes several Business Council members.

Policy propositions in the White Paper will need to solidify this into practical programs that aim to make Australia a significant player in this space.

Aircraft manufacturing

Over the last two decades, global supply chains have come to increasing prominence in the manufacturing of aircraft components. The Boeing 787 and the Joint Strike Fighter are examples of two such high profile programs, where globally manufactured components feed into a single aircraft. Australia is involved in the production of both these aircraft. These programs demonstrate that high quality jobs need not be linked to the manufacturing of whole aircraft locally but can be supported as part of a broader component manufacturing process.

The government should focus and prioritise investment in existing and proposed advanced manufacturing hubs that have strong links to the aviation industry, such as around Western Sydney Airport and at Fisherman's Bend in Melbourne.

Advanced manufacturing and assembly processes, particularly for smaller and uncrewed aircraft, also present new opportunities for local advanced manufacturing. The government is already investing in this capability, with locally produced aircraft such as the Ghost Bat in the defence space. Beyond that, emerging opportunities in drone delivery and advanced air mobility continue to be worth monitoring and supporting.

Emerging aviation industries

There are emerging uses for aviation technology that will improve the lives of citizens. Drone delivery is one of these, with companies such as Wing (a subsidiary of Google owner Alphabet) already performing deliveries in Australia, and others such as Amazon trialling drones in other jurisdictions.

The Civil Aviation Safety Authority has been one of the early regulatory movers in this space, which has provided the opportunity for drone delivery to be tested in Australia. The Department of Infrastructure's work on policy provisions for infrastructure supporting drone delivery (and in future, advanced air mobility) is also a practical and worthwhile initiative.

It will be important that the government continues to engage with emerging technologies and opportunities so that Australians can access the new services they provide.

Airport regulation

As major economic hubs that form a vital part of the national transport system, the efficient and effective operation of the nation's airports should be a paramount policy goal. Delays at any of the major airports can have flow on impacts to aviation services across the country. Fit for purpose regulation must be effective and should be aimed at minimising government regulation of efficient operation and development of airports, noting the need to manage safety, noise, and environmental impacts of facilities. Furthermore, the planning and approval system imposed by the Federal Government must work efficiently.

In this context, the government should confirm that its regulatory provisions for airports, both the national requirements (such as those imposed by the *Airports Amendment Act 2018*), and other more specific requirements (such as those imposed on Sydney Airport under the *Sydney Airport Demand Management Act 1997*) remain fit for purpose. The government should assess what regulatory burden is being placed on Australia's airports unnecessarily, increasing costs, causing delay, or undermining efficiencies. This should also reflect the modern aviation industry and aircraft, taking into consideration reduced noise profiles of modern aircraft.

In this vein, the BCA notes:

- The curfew free operation of the future Western Sydney Airport remains of paramount importance.
- We do not support the introduction of new operational restrictions such as a curfew or movement restrictions on Brisbane Airport following from the opening of the new runway in 2020.
- We support the reform of how movement restrictions imposed at Sydney Airport are operationalised, to increase flexibility and allow better use of the asset without changing headline restrictions. This includes reforms that would facilitate more services across peak periods, without exceeding the movement cap.
- We support the development of a third runway at Melbourne Airport as the current airfield reaches capacity, provided airlines are not called upon to pre-fund the new runway's development.

Forward skills planning

Over the last three years the aviation industry has been buffeted more than many others by the COVID-19 pandemic, with large scale job losses during the period of border closures followed by significant skills and labour shortages post the reopening of the country last year.

The government's 2022 Skills Priority List identifies a number of occupations in the aviation industry in shortage. This includes in engineering and ground handling positions.

The Aviation White Paper should consider what policy measures are needed in the long term to ensure there is a sustainable pipeline of workers for the aviation industry, through both the skills system and through migration, in consultation with Jobs and Skills Australia. There should also be engagement with the Migration Review process underway to ensure that where needed, there is the ability to access overseas talent on a basis that would be attractive to prospective employees (e.g. temporary visas having longer terms with the ability to transition to permanency).

Access to capital

Airlines and airports are capital intensive operations. Access to capital is critical to facilitate additional capacity and deliver customer improvements. It supports more competition, allows the opening of new routes and markets, for greater product differentiation through more modern aircraft, and ultimately lower operating costs. New aircraft also provide important externality benefits for the broader community through lower emissions and quieter operations.

To this end, the government should review and potentially revise any barriers to the access of capital in the aviation industry. This includes foreign ownership restrictions that are currently in place for some parts of the industry.

Competitive tax and regulatory settings

International airlines are generally taxed in their home country. This means that on international routes competitors to Australian operators often have much more competitive tax settings, through lower rates and/or more generous depreciation regimes. International competitors may also not be subject to the same taxes, such as payroll tax, capital gains tax, fringe benefits tax and the like. International tax reform being led by the OECD could fundamentally change the tax settings for Australian aviation. The airline industry remains a unique industry and the tax reforms associated with pillars 1 and 2 should have regard to the industry's unique nature, to ensure new reforms are workable.

Other charges, such as the Passenger Movement Charge, are levied on passengers departing Australia. Its flat fee design and high cost internationally serve as a deterrent to price sensitive travellers. This is particularly the case for passengers on low-cost carriers where the charge may make up a large proportion of the fare. The government should consider how these charges impact the attractiveness of Australia as a destination and consider how to increase the nation's competitiveness.

Efficient management of people and freight

Airports are essential elements of Australia's trade system. As pieces of infrastructure, they allow Australian businesses to export their products and import the goods they need quickly and connect to the rest of the world.

Ensuring that customs, immigration, and freight handling systems at the border are as smooth and efficient as possible is of major significance to Australia's economy. Airports are the first or final location that goods and people (including businesspeople, international students, and tourists) entering or leaving Australia interface with. They are the last line of defence against biosecurity threats coming from overseas.

The Business Council has been a consistent advocate for streamlining and modernising our trading system by simplifying and digitising processes, reducing touch points that trading businesses need to interact with, and ensuring the smoothest possible movement of people in and out of the country, without compromising on security. The work of the Simplified Trade System Taskforce is essential in this regard and the Business Council wishes to see this work prioritised.

BUSINESS COUNCIL OF AUSTRALIA

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