

# AVIATION WHITE PAPER CONSULTATION

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**AIRLINES FOR AUSTRALIA & NEW ZEALAND'S  
SUBMISSION IN RESPONSE TO TERMS OF REFERENCE**

**17 MARCH 2023**



**AIRLINES FOR  
AUSTRALIA &  
NEW ZEALAND**

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# PREFACE

The Australian Government's focus on aviation policy comes at a critical time for the sector, which is still on a journey to full recovery from the impacts of the COVID-19 pandemic. Airlines for Australia and New Zealand (A4ANZ) welcomes the opportunity to contribute to the development of an Aviation White Paper. While airlines form A4ANZ's membership, our intent has been to frame our contribution through a broader lens of public interest, and economic development potential.

Turning our collective minds to a 30-year policy and planning horizon has come at a time of unique challenges for the sector. While the last Aviation White Paper in 2009 was also drafted following an extreme period of global economic downturn, the past three years have delivered far more severe economic shocks than our sector – and our country – have experienced before. The amount and pace of change have arguably never been greater for the aviation sector.

As we look to the future, however, there has equally never been a more important moment to focus on what will give the industry its best and most sustainable path to full recovery. With everything we have learned during the pandemic, we know that this means working together, not only with each other, but also with governments, in ways we may not have previously envisaged. It means collectively searching for the most efficient, cost-effective, and productive ways of doing things, such that the whole aviation ecosystem can thrive. Australia's connectivity, our regions, and our full economic recovery depends on us getting this right.

The overall objective of this initial submission was not to respond in detail to each of the Terms of Reference, but to offer some key considerations on the main themes of the White Paper, and contribute to an informed conversation about shaping effective aviation policy to deliver better outcomes for the sector, consumers and the economy. We hope that this submission reflects the importance we have placed on the opportunity to contribute to this significant policy work.

We would also be pleased to work with other industry stakeholders and contribute in further planned consultations and in response to specific issues explored in the Green Paper, later this year.

## ABOUT A4ANZ

A4ANZ is an industry group representing airlines based in Australia and New Zealand, including international, domestic, regional, full service and low-cost carriers. Established in 2017, A4ANZ's members include Air New Zealand, Qantas, Virgin Australia, Regional Express (Rex), and Jetstar.

A4ANZ works collaboratively with Government and other stakeholders, representing the interests of members, their staff, and customers, in relation to public policy issues. In all areas, A4ANZ strives to provide evidence-based, cost-effective solutions to the Australian Government to ensure practical and efficient implementation of policy, together with the preservation and strengthening of access to air transport for all Australians.

# INTRODUCTION

## Our Understanding of the White Paper Purpose and Scope

It is A4ANZ's understanding, from the initial announcement on the Aviation White Paper (the White Paper)<sup>1</sup>, the release of the Terms of Reference<sup>2</sup>, and our subsequent discussions with the Department of Transport, Infrastructure, Regional Development, Cities, Arts & Communications (the Department), L.E.K consulting, and the Minister's office, that the scope of the White Paper is intended to be wide-ranging and comprehensive. That is, while there may be appropriate pathways to progress or implement specific initiatives put forward by stakeholders in the course of consultations on the White Paper sooner (e.g. via the Jet Council), there is every intention for the resulting aviation policy framework to encompass all areas of Commonwealth Government policy that affect the sector and its future, in the short, medium and long term.

There will undoubtedly be pressure, as we have already seen, to exclude key elements of aviation policy from scrutiny or inclusion in the White Paper. We understand this to be a misinterpretation of the Government's intentions with the White Paper. A4ANZ is supportive of the stated objective for work that is *already underway* through other processes to not be replicated, but also recognises the importance of the White Paper representing an holistic review of issues, and ensuring that the outcomes from other work will be embedded in a long-term vision for the Australian aviation sector. We have structured our response in line with this approach, drawing on existing insights from other reviews or processes that could be readily adopted.

In particular, A4ANZ notes the Government's desired outcome for the White Paper, to "*clearly articulate the Commonwealth Government's policies on desired aviation outcomes in relation to efficiency, safety, sustainability and competitiveness to ensure the sector is appropriately positioned to deliver aviation services for the Australian public and international visitors out to 2050*", and we have taken care to frame this initial submission accordingly.

## The Economic and Social Contribution of Aviation to Australia

Australia's unique geography means that there are remote communities that are only accessible by air or that are long distances from major population centres, making travel by road prohibitive, due to its time-consuming and expensive nature.<sup>3</sup> Aviation therefore plays an important role servicing the needs of these communities by providing access to key services, including transport and freight, medical services, social services and law enforcement, and travel for business and tourism.

Prior to the COVID-19 pandemic, the air transport sector contributed \$104 billion to the Australian economy, and directly and indirectly supported 716,000 jobs.<sup>4</sup> The airline industry is a significant source of economic activity on its own; pre-pandemic, it contributed \$9.4 billion to the economy and supported 50,000 jobs.<sup>5</sup>

The effect of the COVID-19 pandemic, in bringing movements to, from and within Australia to a standstill, highlighted the critical and substantial importance of air transport to the Australian economy. Analysis published by the Business Council of Australia estimated that the economic fallout from the shutdown of domestic and international aviation in Australia for just the first six months of the pandemic alone was \$17 billion and \$61 billion respectively.<sup>6</sup>

Federal Government assistance enabled the aviation industry to play a significant role in maintaining economic and social links within Australia, throughout the pandemic. The various programs enabled critical aviation capacity to be preserved, supporting essential air connectivity to regional and remote communities and in maintaining freight links during the pandemic – the majority of which (approximately 80%) is carried in the cargo-hold of passenger aircraft.<sup>7</sup>

***“Aviation provides transport for both communities and businesses and plays a key role in connecting remote and rural areas...Regional regular public transport (RPT) air services, a key aspect of which includes affordable airfares, are central both to the community's lifestyle and wellbeing as well as regional development.”***

WA Government submission to Senate Inquiry on  
Regional Aviation, 2018

Air freight is a significant contributor to the economy – generating \$10 billion (0.5% of GDP) annually<sup>8</sup> – because it is predominantly used to transport high-value, time-critical goods, including pharmaceuticals, high-end manufacturing products, and highly-perishable goods such as seafood. In a typical year, 1 in every 5 dollars of Australia's goods trade travels via air freight, even though it is less than one percent of trade volume.<sup>9</sup> Efficient air transport supply-chains lower the cost of goods and services, which in turn improves the international competitiveness of Australian businesses. This drives economic growth, tourism, investment, and trade. There is a strong relationship between improved air connectivity and business, trade, and investment, which together boost GDP and employment.

As we look to the future, ensuring that all of these benefits can be maintained – and grown – while simultaneously neutralising the aviation sector's impact on the climate is both a challenge and significant priority for the sector. While the impact of the pandemic was devastating,<sup>10</sup> Australia's aviation sector remains steadfast in its commitment to achieving net zero emissions by 2050; and assisting Australia to meet its climate commitments and international obligations.

All of this underscores the need for a comprehensive aviation policy framework, to support the work required in addressing some of the challenges that could hold us back.

## Headwinds Remain

The most recent ACCC airline monitoring report in March 2023 noted the operational challenges the aviation sector continues to face, including from aircraft manufacturer delays, supply chain dislocations, and labour availability and training.<sup>11</sup> As was recently noted by the Minister for Skills and Training, Australia has the second highest labour supply shortage in the OECD, and this represents a major economic challenge.<sup>12</sup>

There are both current and future projected shortages in the pilot and engineer workforce, and the sector will need to train more to both keep ahead of natural attrition and meet projected need. The aviation workforce requires specific skills and training, necessitating significant forward planning and investment.<sup>13</sup> While Australia's airlines are already making significant investments in training<sup>14,15,16</sup> – further action from Government may be required to realise the full potential of a robust aviation skills and training sector, both domestically and as a possible export opportunity.



The ACCC report also noted that the performance of industry partners, such as air traffic controllers, security and other airport personnel can negatively impact the impact on-time performance and contribute to higher rates of cancellation.<sup>17</sup> There has been public reporting of the disruptive effect that high rates of absenteeism among air traffic controllers, particularly at Sydney Airport, are having across the whole network.<sup>18</sup>

Jet fuel prices – elevated due to the war in Ukraine – remain high, even while trending down. As the sector looks ahead to make the transition from traditional jet fuel to SAF, the viability of this shift will depend on a favourable policy environment and incentives to support domestic production.

After staff and fuel, the next largest expense Australian airlines face are airport charges. This is more acute at home than at international destinations, with (pre-COVID) airport charges representing 14% of airline revenues in Australia, compared with 9% in the EU and 6% in the US.<sup>19</sup> As major airport agreements reach an end in the next few years, anticipated capex demands from airports – including for works deferred due to COVID-19 – will place significant pressure on the cost base of airlines. Ensuring that these works are all necessary, fit-for-purpose, and priced efficiently remains a challenge for airlines under the existing regulatory regime for Australia’s airports.

As the sector continues its recovery from the pandemic. It will be more important than ever that aviation stakeholders and the Government work together to ensure that our aviation policy settings are fit-for-purpose, providing important safeguards to enable Australians continued access to affordable air travel into the future.

## Defining Aviation Policy

One of the challenges that our sector faces is how “aviation policy” is defined and the resulting interface this creates with governments, their departments, and agencies. As the White Paper Terms of Reference recognise, the aviation sector comprises a wide range of actors. Just as diverse are the policy areas that impact aviation and the portfolio responsibilities for those within the Commonwealth Governments. For example, the aviation sector is affected by legislation concerning aviation security (Home Affairs), airport regulation (Treasury), biosecurity (Agriculture & Health), workforce and skills (Employment & Workplace Relations), sustainable aviation fuels (Departments of Infrastructure & Transport, and Climate Change, Energy, the Environment and Water), just to list a few. A4ANZ is hopeful that one of the outputs of this White Paper is a more streamlined approach to aviation policy, through a comprehensive and coherent framework.

***“The aviation industry does not exist in a vacuum. It drives, and is driven by, broader economic and social development. Aviation is inextricably tied to the world economic environment and an evolving competitive and regulatory landscape.”***

National Aviation Policy White Paper,  
2009

## Responding to the White Paper’s Terms of Reference

In a table at Appendix A, we have offered some specific comments and considerations against each of the individual Terms of Reference listed. In addition, we have signposted to some useful references, resources, and concurrent work streams, that may be of assistance in the preparation of the Green Paper.

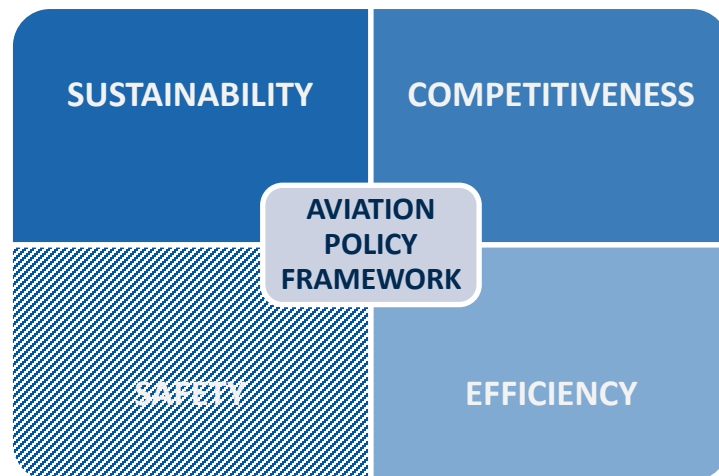
Rather than make assumptions about each of the detailed elements contained within the Terms of Reference at this stage, A4ANZ intends to respond to specific issues or questions raised in the Green Paper through later submissions and/or consultations. Our response in this initial submission is instead framed around the key themes that the Terms of Reference raise, as outlined below.

## Responding to the White Paper's Themes

The Terms of Reference state that the White Paper will “*examine the Government policy and economic reforms necessary to promote efficiency, safety, sustainability and competitiveness of the aviation sector out to 2050.*”<sup>20</sup>

Due to the technical and operational nature of aviation safety, A4ANZ has had a long-standing practice not to comment on this area of aviation policy; and have generally left commentary on these issues to our member airlines and others with relevant expertise; notwithstanding our recent work on unruly and disruptive passenger behaviour.<sup>21</sup>

Once the Green Paper is released, we will consider any relevant contributions we could make to discussions on specific areas. For the purposes of this submission, however, we have focused our commentary and input on the three themes of sustainability, competitiveness, and efficiency. In doing so, we recognise that this creates a somewhat artificial separation of the issues, given the significant overlap in these areas – particularly competitiveness and efficiency. As the submission outlines, these are inextricably linked.



Nonetheless, we have attempted to frame A4ANZ's submission in a way that is consistent with the White Paper themes. In chapter headings under these three areas, we have set out the key considerations for Government policy and economic reforms, responding directly to the White Paper's stated purpose and output, to:

- explore likely future trends over the period to 2050; and
- include concrete actions for the next 5 years.

Wherever possible, we have drawn on existing principles and directions that could be readily translated into policy and reforms.



# KEY CONSIDERATIONS: SUSTAINABILITY

It has long been said that Australians love to fly – but we also need to fly; our connectivity, our regions, and so much of our national economy depends on it. The COVID-19 pandemic demonstrated the importance of this connectivity, and a thriving aviation sector is a necessity for Australia – both now, and for future generations.

However, as Australia’s aviation sector has grown, so too have its emissions. In 2019, emissions from domestic aviation in Australia were 8 Mt CO<sub>2</sub>-e, or 8% of total transport emissions.<sup>22</sup> Even though emissions from domestic aviation account for only 1.5% of Australia’s emissions today, aviation is one of the most difficult sectors to decarbonise, and will represent a much more significant proportion of Australia’s total emissions as time goes on, and other industries – with more accessible abatement options – decrease their emissions.

As highlighted earlier, the aviation sector is also a significant contributor to the Australian economy, and simply flying less is not a viable alternative to progressing other, effective emissions reductions measures – particularly for a country such as Australia, a large island nation with challenging geography, which is reliant on aviation for so much of its connectivity.

As we face into a global climate crisis, the aviation sector is aware of its responsibilities to decrease emissions. More importantly, it is committed to meeting these responsibilities – even as air traffic increases and the sector recovers from the pandemic.

***“Aviation is an irreplaceable industry, especially for a country the size of Australia, and one that’s located so far away from so much of the world. Future generations are relying on us to get this right so they too can benefit from air travel.”***

Qantas & Airbus, 2022

In the time since the Australian aviation sector committed to the goal of net zero by 2050, we have already seen changes – in governments, policy agendas, science and technology plans, corporate commitments, and shareholder and societal expectations – all of which have shifted our thinking on both what is needed, and what is possible.

A4ANZ welcomes the Government’s interest in exploring how to maximise the aviation sector’s contribution to achieving net zero carbon emissions through sustainable aviation fuel and emerging technologies, not only as listed in the Aviation White Paper Terms of Reference, but also through the soon to be established Jet Zero Council. In 2022, A4ANZ led a significant piece of work in this space, publishing an *Australian Roadmap for Sustainable Flying – Net Zero by 2050* (the Roadmap), informed by stakeholders from across the aviation sector. We have drawn on the analysis and recommendations from both the Roadmap and A4ANZ’s continuing work in this area in the following sections. A summary infographic of the Roadmap can be found at *Appendix B*.

## Future Trends in Emissions and Decarbonising the Aviation Sector

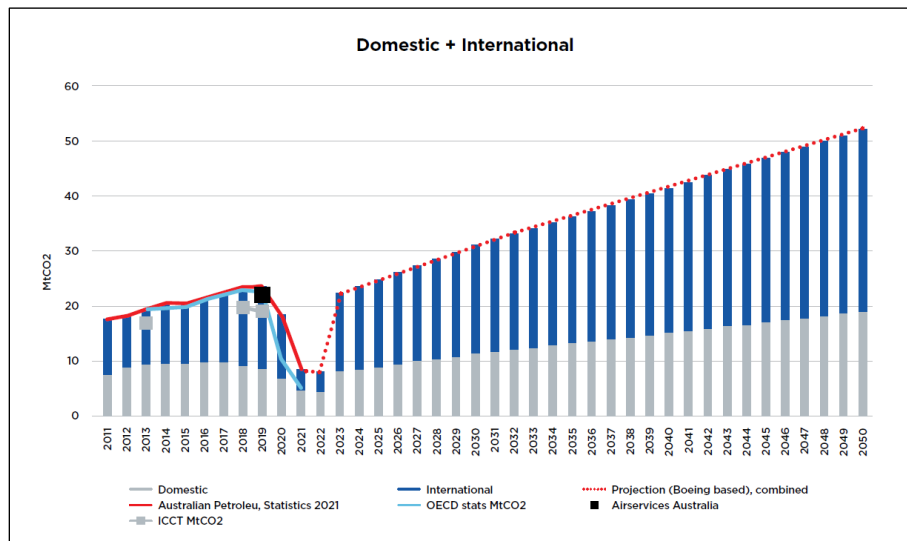
### Future Emissions Growth and Projections

Emissions from domestic aviation account for just 1.5% of Australia’s total emissions today, but total aviation emissions continue to grow, despite measures taken by the sector over the past decade to increase fuel efficiencies and decrease emissions intensity. Aviation emissions are projected to grow steadily over government projection horizons, as activity continues to grow generally in line with population.

Even with the prospect of net emissions from domestic aviation decreasing due to compliance with the proposed Safeguard Mechanism, the projected recovery of, and increase in, international flying in particular, is likely to drive continued growth in overall emissions.

To reverse or even arrest this growth is no simple task. It is well recognised that aviation is one of the most challenging industries to decarbonise, and this is particularly so in a country like Australia which relies heavily on flying for its connectivity.

As part of the development of the Roadmap, A4ANZ engaged Frontier Economics to develop baseline emissions forecasts to 2050 (included in Figure 1)<sup>i</sup>, and to model the emissions reduction potential of abatement options for meeting net zero by 2050 for the aviation sector in Australia.



*Figure 1 – Breakdown of emissions from domestic and departing international flights (historic and baseline to 2050)*

These baseline emissions projections are important not only because they provide information about the trajectory the sector is on in terms of emissions, but they highlight the significant challenge ahead.

The profile of emissions is also important when accounting for abatement potential given that step change technology options – i.e. hydrogen and electric aircraft – will generally be limited to shorter domestic flights.

Based on Aircservices Australia data for 2019 flights, approximately 25% of total flights are international but they account for around 71% of emissions (see Figure 2). Conversely, short haul and regional flights that have more potential for technology change, account for nearly 60% of flights but only 12% of total emissions, and this is reflected in the emissions mitigation potential of these flights.

<sup>i</sup> These projections, from the Roadmap, have assumed frozen fleet – to understand the impact of fuel efficient aircraft and current fleet renewal programs - so may be higher than the official Government projections.

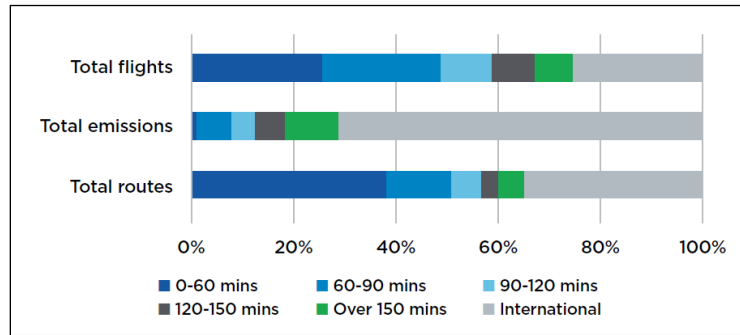


Figure 2 – Breakdown of flights and associated emissions profile (2019 data)

## Decarbonising the Australian Aviation Sector – Reaching Net Zero by 2050

The Australian aviation sector is committed to the firm target of achieving net zero emissions by 2050, backing in the global airline industry’s 2021 net zero resolution<sup>23</sup>, and supporting broader commitments by the Federal Government for Australia to reach net zero by 2050<sup>24</sup> – including the Government’s commitment at the 41<sup>st</sup> International Civil Aviation Organisation (ICAO) Assembly, to ICAO’s collective Long Term Aspiration Goal (LTAG) of net-zero aviation emissions by 2050.<sup>25</sup>

Globally, there is a significant amount of work which explores how the aviation sector will reach net zero emissions by 2050 – and it is widely recognised that the aviation sector has limited options for reducing its emissions to the extent required to reach this target, with the four key levers and their relative contributions outlined below and in Figure 3:

- efficiency gains from improvements in engine and aircraft technology, including through fleet modernisation, and the potential use of hydrogen and electric planes;
- efficiencies through the optimisation of flight paths, air traffic management, and operations;
- deployment of Sustainable Aviation Fuels (SAF); and
- economic or market-based measures (ie. carbon offsetting).

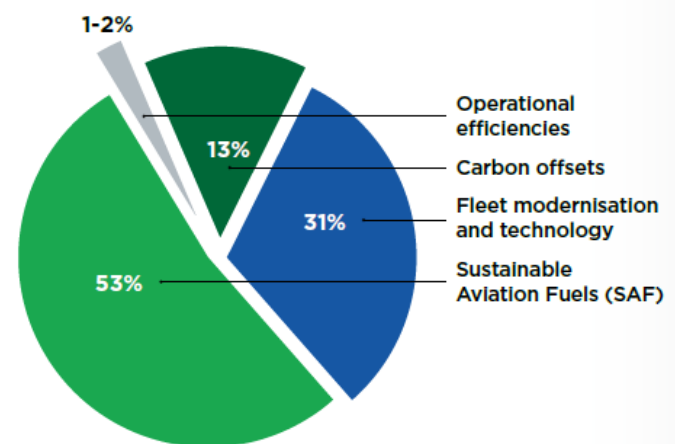


Figure 3 – Potential proportionate contributions of each measure to reach net zero by 2050

While each country’s pathway to net zero aviation looks different, the mainstay of each is the significant role of SAF – and both scenarios explored in the *Australian Roadmap for Sustainable Flying* share this feature.

### Improvements in Aircraft and Engine Technology

Airlines can mitigate future emissions by implementing existing and upcoming aircraft technology. There are two broad ways in which improvements in technology may impact emissions:

- The first involves replacing current aircraft with more fuel-efficient aircraft, which can then be powered by conventional jet fuel, a blend of conventional jet fuel and SAF, or – in the future – 100% SAF. With improved fuel efficiency, aircraft produce fewer emissions on a per flight basis.

- The second involves replacing current or future aircraft with aircraft powered by alternative fuel sources such as hydrogen and electricity. These zero or low-emission propulsion technologies will likely produce fewer emissions than those using jet fuel on a per flight basis.

Even though fleet modernisation is an extremely expensive and time-consuming process, it is likely that by 2050, airline fleets are likely to have been replaced at least once. Indeed, Australian airlines' commitments for new aircraft from both Boeing and Airbus note the significant fuel efficiency improvements,<sup>26,27,28</sup> which can be expected to be from 15% to more than 25% more fuel efficient, compared to their predecessors.<sup>29</sup>

Longer term, revolutionary, rather than simply evolutionary, changes to aircraft configurations and propulsion systems may become viable. Aircraft may move away from the tube-and-wing configuration, jet fuel-powered turbofan and turboprop engines, to alternative concepts using new energy sources.<sup>30,31</sup> Options for these new energy sources include:

- Hybrid-electric aircraft, which utilise both combustion and electric propulsion systems;
- All-electric aircraft, which replace combustion engines with electric motors;
- Hydrogen-powered aircraft, which utilise hydrogen as a propulsion fuel for combustion in conventional engines rather than jet fuel, and in fuel cells for electrical power.<sup>32</sup>

However, while it now seems likely that the technical development of these new aircraft concepts could be achieved in the next one or two decades,<sup>33,34</sup> there are economic and commercial constraints that may delay or prevent their implementation at scale.<sup>35</sup> Even in the event that that zero-emission aircraft are widely adopted by the industry prior to 2050, their impact on reducing overall sector emissions will still be limited given the emissions profile of the routes and flights on which they will be deployed. The Roadmap estimates that total emissions reductions from zero emission aircraft will be around 4% by 2050.

As noted earlier, the significant majority of airline emissions – approximately 71% of total aviation emissions in Australia – come from international flights; as such it may be reasonably assumed that these flights will not be serviced by zero-emission aircraft. Similarly, 87% of domestic aviation emissions in Australia come from flights with seating for more than 150 people, with flight times exceeding 60 minutes; a combination of characteristics which place them out of scope for zero-emission aircraft, without significant technological advancements, in the foreseeable future.

While zero-emission aircraft are unlikely to have a significant impact on emissions in the Australian market before 2050, Australian airlines – and the industry more broadly – have committed to working together to both introduce novel technologies and ensure that the infrastructure required for these aircraft is fit-for-purpose.

### **Improvements in Operations and Infrastructure**

Often perceived as the “low-hanging fruit” in emissions reduction, improvements in operations – through greater efficiency – are changes that can be made by the sector without incurring significant costs. However, Australian airspace is already efficient, relative to international airspace – with routes largely optimised.<sup>36</sup>

Despite this, it is widely-accepted that there are a number of external factors which can introduce inefficiencies compared with ideal flight paths and conditions, for example:<sup>37</sup> safety considerations, capacity constraints, adverse weather conditions, and noise abatement procedures.<sup>ii</sup>

Australian airlines will continue to pursue continuous procedural improvements to reduce emissions by identifying opportunities for improvement, supporting staff through the implementation of improved operations, and measuring and maintaining subsequent improvements in fuel efficiency and emissions.

Similarly, the airline industry is committed to implementing the latest innovations and improvements in flight planning and air traffic management, and working collaboratively with relevant government agencies; the Civil Aviation Safety Authority (CASA), Airservices Australia, and Defence, to optimise the flow of air traffic and ensure that Australia's airspace remains safe, secure, and efficient.

While airlines are aiming to reduce gross emissions by implementing new technology, operational efficiencies, and the utilisation of sustainable aviation fuels, high-quality carbon offsetting will remain a key lever in achieving the industry's commitment to net zero emissions by 2050.<sup>38</sup>

### **High Quality Offsetting**

As noted earlier, aviation is one of the most difficult sectors to decarbonise. Therefore, in the short-to medium-term, well-designed, market-based measures and high-quality offsetting will remain the key to reducing emissions from domestic and international flying<sup>39</sup> – especially in the Australian market, where SAF is not yet locally available.<sup>iii</sup> In the near-to-medium term, accessing high-quality offsets and credits will be key to enabling airlines to meet their climate obligations under the proposed Safeguard Mechanism.<sup>40</sup>

In the longer-term and as we reach 2050, offsets will generally only be required to bridge the gap remaining after all the other measures to reduce emissions – outlined earlier – have been implemented at scale. As such, the industry will continue to invest in robust, high-quality, and high-integrity offsetting projects – both domestically, and internationally – with tangible community and biodiversity benefits.<sup>41,42</sup>

### **Sustainable Aviation Fuels**

As shown in the *Australian Roadmap for Sustainable Flying*, Sustainable Aviation Fuels (SAF) will be the single biggest facilitator of the Australian aviation sector reaching net zero by 2050.

SAF are low-carbon fuels derived from a variety of biogenic and non-biogenic sources such as plant and animal wastes, used cooking oil, or chemical compounds – including carbon dioxide and green hydrogen.<sup>43</sup> SAF are a credible solution to the decarbonisation challenge as they meet the same chemical and safety specifications as conventional jet fuels, and critically, can be used in aircraft engines now.

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<sup>ii</sup> To reduce noise impact on the ground, aircraft operations around airports are subject to noise abatement procedures and regulations (Air Navigation [Aircraft Noise] Regulations 2018) that may reduce noise for a certain suburb but may cause the aircraft to fly an approach or departure that is a less efficient route or accept suboptimal altitudes.

<sup>iii</sup> While there is currently no Australian SAF industry, the airline industry – and indeed the aviation industry more broadly – is committed to working with the Federal Government to ensure that a scalable, sustainable, and commercial domestic SAF industry is established.

At present, ASTM<sup>iv</sup> fuel standards permit blends of up to 50% SAF to be ‘dropped in’ to existing aircraft engines and refuelling infrastructure without changes needed. Higher blending rates are expected to be approved by certification pathways, as engine and aircraft manufacturers work to better understand the potential implications of lower aromatic proportions in fuel, and augment engines (and associated engine components) to run safely and smoothly with higher SAF blends.

There is a wide range of feedstocks that can be processed and refined into a SAF via one of seven approved conversion technologies – and Australia has a natural advantage/potential to capitalise on a number of these.

However, as we look to plan for this future, it is broadly agreed that there are three primary challenges to establishing a SAF industry in Australia:<sup>44</sup>

1. securing sufficient quantities of appropriate feedstocks that can be integrated from a supply chain perspective with a biorefinery;
2. challenging economics, particularly for an emerging industry whereby SAF will continue to be multiple times the cost of conventional jet fuel in the absence of measures to bridge the cost gap; and
3. the lack of a supportive policy framework to encourages cross-sector development and investment, and stimulate demand.

The Federal Government’s commitment to establish an Australian Jet Zero Council<sup>45</sup> should enable an appropriate framework for collaboration and a supportive policy environment, to support the domestic production and deployment of SAF.

A local SAF industry also has the potential to provide major benefits to the Australian economy and community more broadly. The economic potential of SAF is significant for both GDP and jobs growth. Preliminary analysis and benchmarking from Frontier Economics estimates that an Australian SAF industry could – across the total supply chain – create more than 7,400 jobs and contribute an additional \$2.8 billion annually in GDP by 2030.<sup>46</sup> By 2050, a local SAF industry could contribute over 15,600 local jobs and an additional \$7.6 billion annually in GDP (see infographic at Appendix C).<sup>47</sup>

A local SAF industry would also have a significant positive impact on Australia’s domestic fuel security.

## Fuel Demand & Security

### Jet Fuel Demand in Australia – 2050 Projections

Over the next 30 years, aircraft engines and operations are expected to become more fuel efficient and zero-emission aircraft will not require jet fuel at all, as outlined earlier. As such, it is possible that fuel demand may be up to 30% lower than under business-as-usual projections (with frozen fleet).

Even still, the volume of jet fuel – and therefore SAF – required to satisfy demand is substantial. In 2019, Australian aviation fuel use was approximately 9,400 ML.<sup>48</sup> While demand dropped to around 3,200 ML in 2022 due to the COVID-19 pandemic, it is expected to return to 2019 levels by 2024, and Roadmap projections suggest that demand will increase to over 14,000 ML by 2050.<sup>v</sup>

<sup>iv</sup> ASTM International is a globally recognized leader in the development and delivery of voluntary consensus standards. ASTM and UK Defence Standard (Def-Stan) specifications dominate the majority of jet fuel sold across the world.

<sup>v</sup> Based on Frontier Economics’ analysis of fuel projects and the assumption of a robust post-COVID-19 recovery.

This fuel volume constitutes nearly double the expected demand for bioenergy in the Australian aviation sector predicted in ARENA's BioEnergy Roadmap, under the targeted deployment scenario modelled in 2021.<sup>49</sup>

A4ANZ's Roadmap presented two potential scenarios for SAF uptake – the first using assumptions based on previously announced airline commitments and international fuel blending mandates, the other, more ambitious scenario assumes an almost total replacement of conventional jet fuel with SAF by 2050, reliant on strong industry and government commitments, and a nationally-consistent, supportive policy framework.

Both scenarios will require supply from third generation or synthetic biofuels (ie. PtL) to meet demand.

Unfortunately, the supply chain for SAF in Australia is underdeveloped, as are the regulatory frameworks that certify producers' adherence to sustainability standards. Currently, Australian airlines seeking to purchase SAF must source SAF offshore from international producers.

### **Sustainable Aviation Fuels – Improving Domestic Fuel Security**

As noted earlier, a supply of local SAF will significantly improve Australia's domestic fuel security.

Australia is heavily reliant on commercial stocks of crude oil and refined products to maintain fuel supplies – with this increasing dependency most pronounced for aviation fuel. Since 2010, aviation fuel imports have increased from 30% to 80%.<sup>50</sup> In 2020-21, more than 80% of Australia's finished aviation fuel was imported, with crude imports constituting almost 100% of production inputs– because of this, the sector is exposed to a variety of risks, including from geopolitical events, natural disasters, and supply chain disruptions.<sup>51</sup>

Avoiding the chaos associated with moderate or severe fuel disruption is of benefit to the entire economy and country – indeed, the importance of this was demonstrated in 2022 during the shortage of AdBlue.<sup>52</sup>

## **Next Five Years: Existing Principles & Directions for Government to Adopt**

The 2021 report from the Future of Aviation Reference Panel (the Panel)<sup>vi</sup>, noted that there was near unanimous agreement amongst all aviation industry participants that Australia had, within its grasp, *“an opportune moment in history to take the lead on global aviation sustainability and decarbonisation and to do so with the support of the aviation eco-system”*.<sup>53</sup>

### **A Comprehensive Policy Framework and Incentives for SAF**

The Panel's formal recommendation on SAF was *“that the Government should develop a comprehensive policy framework to promote the development and production of locally produced sustainable aviation fuel and to incentivise industry through financial and non-financial means to uptake and deploy sustainable aviation fuel.”*<sup>54</sup> The panel's report further notes, as examples, the United States, United Kingdom, and the European Union as all having all committed to, and starting to make significant progress in, the SAF industry.

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<sup>vi</sup> The Panel was established in Dec 2020 by the former Government, and comprised aviation experts including Professor Patrick Murray (Chair), Ms Adrienne Fleming OAM, Mr Andrew Drysdale and Ms Shannon O'Hara. Together they were tasked to consult with the aviation industry on the *Future of Australia's Aviation Sector* and to assist the Government in its ongoing support of the aviation sector through recovery from the pandemic, with a focus on a safe, secure and efficient industry for the future.



Unfortunately, the lack of progress made towards such an objective has put Australia's potential to be a leader in the SAF industry at significant risk, and there is now a need to move at pace. The Government could adopt what the Panel suggested as a 'quick win', that is, to *"embark on development of an industry-led roadmap for the establishment of an Australian SAF industry."*

There is already some work in this space, with the CSIRO, in collaboration with Boeing, conducting an analysis to consider sustainable aviation fuel (SAF) feedstock availability and production potential in the APAC region, with a primary focus on Australia and New Zealand. The analysis will be used to develop a Roadmap that encourages the cost-effective production of SAF with feedstocks that are appropriate considering the regional context and to inform policy and government investment decisions. The SAF Roadmap is expected to be released in mid-2023 and will be used to influence and build consensus on how to approach Australian SAF industry development within the wider APAC context.

Given that the CSIRO-Boeing SAF Roadmap has a primary focus on opportunities within Australia and New Zealand, we would encourage the Department, and the broader Australian Government to work with counterparts in New Zealand to explore how to best collaborate to realise the potential of a domestic SAF industry in our region.

As A4ANZ's Roadmap notes, no individual policy will drive SAF growth on its own. As such, a range of policies to stimulate supply and demand, and measures to enable adequate and sustainable feedstock for the sector will be required to develop and sustain a strong and viable SAF industry in Australia.

The Panel recommended that, in parallel to the development of an industry-led roadmap, Government should develop financial and non-financial incentives for an Australian fleet modernization program aligned with the utilisation of Australian produced SAF.<sup>55</sup>

Separate to the specific policies outlined in the Roadmap to support SAF production and supply, and stimulate demand, the Government will also need to collaborate with industry to develop and implement the necessary ancillary policies to support a local SAF industry. Potential initiatives could include setting a domestic SAF production target, facilitating an Australian SAF certificate standard, and leveraging the existing Safeguard Mechanism to drive SAF production and uptake.

Government will need to take an active role, and we are encouraged by the recent Roundtable<sup>56</sup> and the establishment of the Jet Zero Council. This is consistent with the Panel's statement that *"there is a strong need for Government to take the lead on the development of a SAF industry, and that includes both direct and indirect financial support and structural incentivisation for industry to take up SAF."*<sup>57</sup>

As noted throughout this submission, A4ANZ developed, on behalf of industry, the *Australian Roadmap for Sustainable Flying – Reaching Net Zero by 2050*.

The Roadmap aims to outline a path towards decarbonising flying in Australia, with the Roadmap covering emissions from all domestic and departing international RPT flights. The Roadmap also covers the practical considerations and challenges associated with each of the emissions mitigation strategies outlined earlier, and makes a number of recommendations which broadly outline what is required to facilitate the aviation sector to reach its full potential in achieving the ambitious pathway to net zero emissions by 2050.

It is critical that air navigation service providers, airports, and airlines work collaboratively to maintain Australia's efficient airspace, particularly as passenger numbers increase, new technologies emerge, and airspace becomes busier.

To explore the potential of, and barriers to, zero emission aircraft – and how these can best be utilised and implemented in the Australian environment – we would recommend that a specific sub-group to the Australian Jet Zero Council be formed, focused on realising the potential of zero emission aircraft in Australia.

Ultimately, A4ANZ's Roadmap encourages the Government to strike an appropriate balance of policy settings to support this aspirational technology, while ensuring that other measures, such as a policy framework to support the development, production, and uptake of SAF, are also prioritised – given both the long lead time to implementation, and the significant role that that SAF will have in reducing aviation emissions in Australia.

The recommendations, and the examples of international policies included in the Roadmap, are not intended to be an exhaustive list of actions that governments could take – and industry will continue to contribute to more detailed policy development both through the Australian Jet Zero Council and in other forums, to determine the best and most appropriate way forward for the Australian market.

## Setting the Policy Direction – the Australian Jet Zero Council

A4ANZ notes the recent progress that has been made since the Minister's announcement of the formation of a Jet Zero Council in July 2022, with a Ministerial roundtable being convened in February 2023 to canvas industry perspectives on the Council's function and focus.<sup>58</sup>

As indicated above, and in keeping with international models, the Jet Zero Council could have sub-groups to more directly progress targets for development; for example, SAF and zero-emissions aircraft.

We welcome the Minister's comments at the recent Roundtable that the Government will not wait until the completion of the White Paper process to take action in this space. The pace at which the Government moves on this is vital – as without prompt action, Australia is at risk of losing an opportunity to be a leader in SAF in the APAC region, and we could squander the advantage created by our vast natural resources.

It is important the Government work with the Jet Zero Council to provide leadership on SAF, establish a coordinated national strategy, and implement a supportive policy framework in a timely fashion.

## A Whole of Government Approach

A4ANZ notes that there is currently a consultation being undertaken on the design of both the Powering the Regions Fund<sup>59</sup>, and the National Reconstruction Fund<sup>60</sup>. While neither fall under the auspice of the Department of Infrastructure & Transport, we would encourage the Department, and the Government more broadly, to consider how it may partner with stakeholders from across the aviation sector, to unlock opportunities in these funds to enable progress to be made toward a sustainable and viable local SAF industry; an industry which will support well-paid jobs, enhance Australia's fuel security and sovereign manufacturing capability, and drive significant economic growth.

A4ANZ has also welcomed the flexible arrangements that the Government intends to make available as part of the recent proposed reforms to the Safeguard Mechanism – as these will enable facilities to determine the most efficient and effective way to meet their obligations under the scheme.

As noted earlier, it is a reality of the challenge to decarbonise aviation that, in the short-to medium-term, well-designed, market-based measures and high-quality offsetting will remain the key to reducing emissions from domestic and international flying – especially in the Australian market, where SAF is not yet locally available.

This flexibility is particularly important for the Australian aviation sector, given that the most effective emissions reduction measures for the sector – including locally produced sustainable aviation fuels (SAF), new aircraft technology, and fleet renewal – have significant lead times for implementation.

High-quality offsets and carbon credits will remain essential for airlines to meet their climate obligations in the near-term, as a hard-to-abate sector. It is vital that – at the same time as the Safeguard Mechanism is being introduced – policy frameworks and incentives are being designed to support the development and implementation of these other measures in the medium-term.

A4ANZ encourages the Government to consider how the \$600M earmarked for the Safeguard Transformation Stream<sup>61</sup> – along with the Powering the Regions Fund, and the National Reconstruction Fund – could best be leveraged to support the production, uptake, and deployment of SAF in Australia.

# KEY CONSIDERATIONS: COMPETITIVENESS

## Future Trends in this Area

In this section, we consider how a lack of airport competitiveness is negatively impacting the aviation sector and will continue to do so into the future, if opportunities for reform continue to be bypassed. This is not only an issue for the major airports, with almost all Australian airports exhibiting natural monopoly characteristics (i.e. experiencing no or very limited competition), and the impacts are felt by all airport users, not just airlines.

### Airlines Will Continue to be Competitive, Offering More Choice to Consumers

Australian airlines operate in a competitive market. Strong competition since airline deregulation in 1990 has spurred Australian airlines to invest and innovate to reduce costs, and deliver benefits for consumers in the form of lower prices, better services and more choice.<sup>62</sup> Global benchmarking has confirmed the relative efficiency of Australian airlines.<sup>63</sup>

In the decade prior to the COVID-19 pandemic, these efficiencies enabled investments and a reduction in airfares, with the cheapest fares decreasing by 25%.<sup>64</sup> This trend does not come as a surprise to regulators, as the ACCC acknowledged in a section titled *“Competition helps keep airfares down”* in its December 2022 report on Airline Competition in Australia.<sup>65</sup> Successive ACCC airline monitoring reports have documented the growing competition in the airline market post-pandemic, noting the positive impact of Rex’s entry into intercity networks and then Bonza’s emergence in the regions.

As the market returns to normal – with further enhanced competition – and short-term pressures ease, airfares are again falling.<sup>66</sup> Historical trends point to the fact that, when airlines are able to reduce costs in any part of their business, they have reinvested in improving the consumer experience including increased frequency of flights, additional routes, and fare reductions.<sup>67,68</sup>

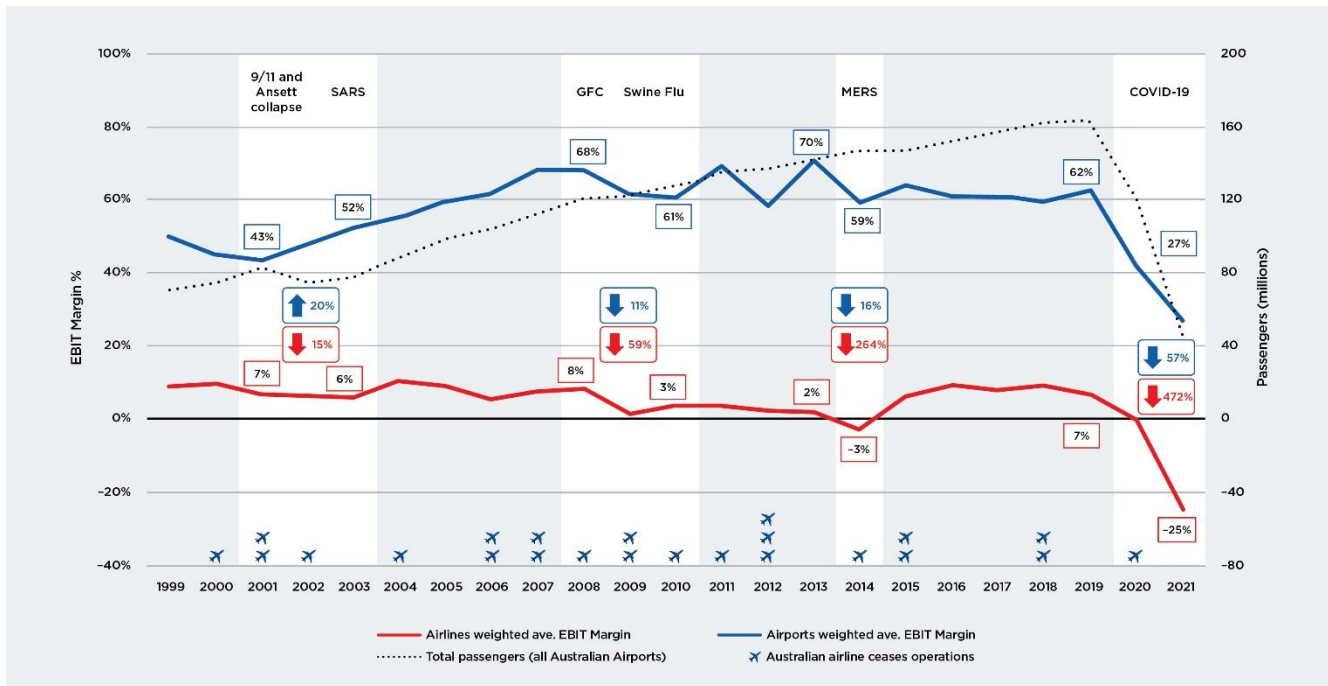
***“Competitive pressure is key to good economic performance. It moves resources to their best uses. It can push firms to come up with good ideas.”***

Grattan Institute, 2017  
Competition in Australia

Over the same pre-pandemic period, Australia’s major airports – which operate as monopolies – *increased* their aeronautical revenue per passenger by 29% in real terms.<sup>69</sup> Again this is an unsurprising finding, given the lack of competition – and regulation – Australia’s airports face. As the ACCC noted in its June 2022 Airport Monitoring Report, *“Each airport, just as any other private business in Australia, seeks to maximise its profits. As monopolies that are not constrained by competition, airports seek to achieve this by charging monopoly prices, while limiting output and service levels. Airports may also under- or over-invest in their infrastructure and lack incentives to operate efficiently or to adopt innovative technologies and service models.”* This has negative impacts for airport users, including consumers. The ACCC went on to say that *“Such actions hamper productivity and lead to efficiency losses to the detriment of consumers and the broader Australian economy.”*

These impacts were recognised by the former Government in other monopoly sectors, including digital platforms and media companies. Reforms were introduced with a goal to deliver a fit-for-purpose regulatory framework that better protects Australian consumers, and addresses bargaining power imbalances.<sup>70</sup>

As the whole sector recovers from the economic shock of the pandemic, the road ahead for airports and airlines is therefore very different, given the markets in which they operate (see Figure 4).



Source: Frontier Economics analysis of airline and airport annual reports, financial data reported to the ACCC's airport monitoring report, and BITRE airport traffic data. Weighted averages for airports include Sydney Airport, Melbourne Airport, Brisbane Airport and Perth Airport, whereas for airlines it includes Qantas, Virgin Australia (exc. FY2021) and Rex.

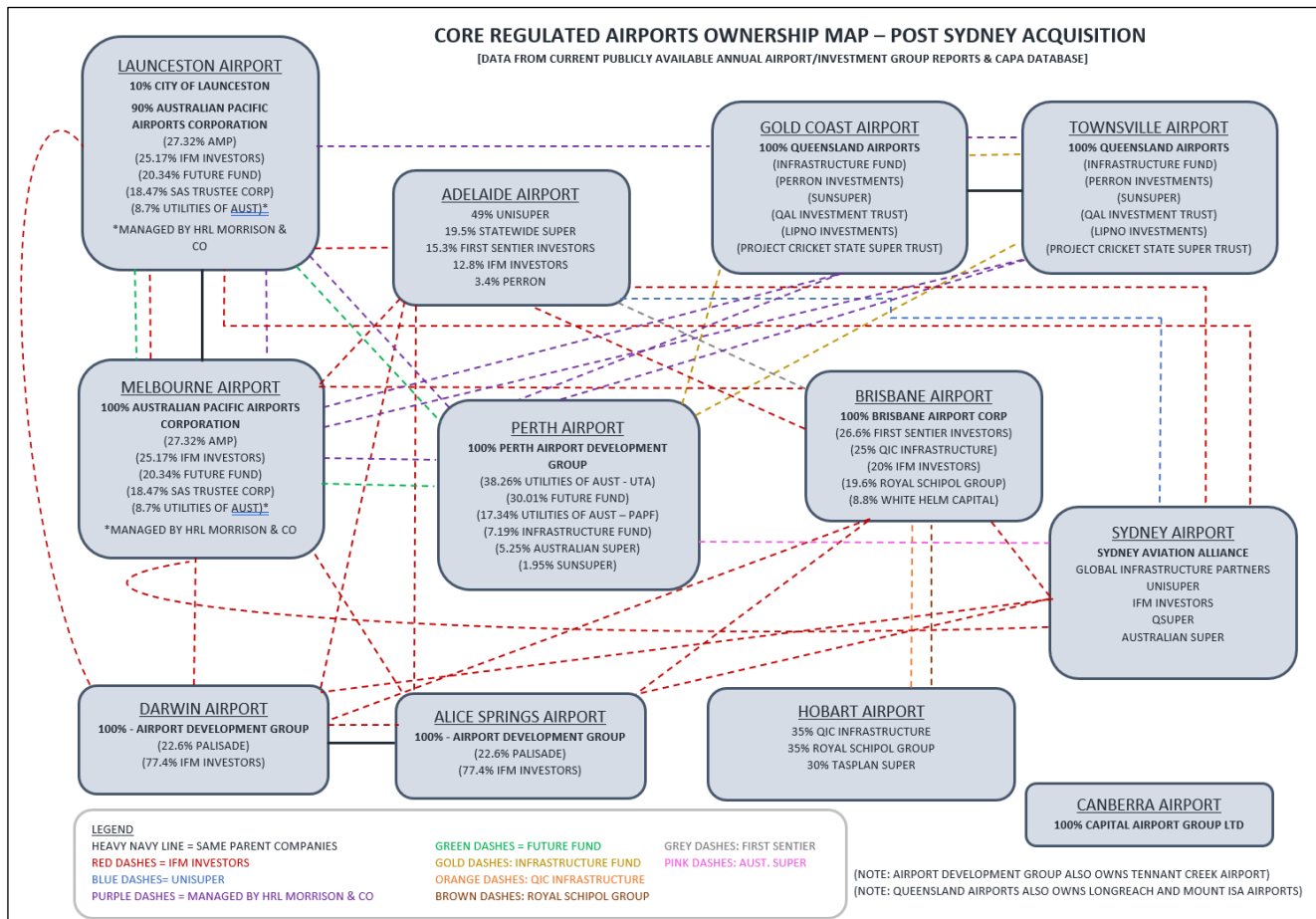
Figure 4 - The impact of global events on Australian airline and airport profitability

## Australian Airports Will Maintain Their Position Among the World's Most Profitable

The economic regulation of Australian airports, despite their status as privatised monopolies, is widely regarded as one of the most light-handed in the world. It has meant that, for almost two decades under this regime, the four major airports have earned returns that are exceptional, not only by international comparison,<sup>71</sup> but classed as “super-normal” profits relative to other sectors.<sup>72</sup> Prior to the COVID-19 pandemic, the EBITDA margins of Australia’s monopoly airports had been growing steadily, far out-pacing global averages,<sup>73</sup> with Sydney Airport ranking as one of the most profitable airports in the world.<sup>74</sup> Investors noted that the airport’s “*unregulated revenue stream in a monopoly environment is a key reason why it trades at a premium multiple to global peers.*”<sup>75</sup>

This is a concerning, but entirely unsurprising outcome of the existing regime. As former ACCC Chairman Rod Sims observed, the use of market power by monopoly asset owners, “... is not some form of aberration. They are simply acting commercially and predictably to maximise profits as their shareholders demand of them.”<sup>76</sup> For monopoly assets like Australia’s airports, there are limited incentives to lower costs or improve quality, as outlined above. A4ANZ and other airport users have, for some time, been concerned that the increasing concentration of airport ownership could create further disincentives for efficient pricing and investment across our major and capital city airport network.

The privatisation of our airports over the past two decades has increased the concentration of ownership of the leased federal airports – creating an intricate web of multiple cross-ownership situations (see Figure 5).



**Figure 5 – Ownership Map of Core Regulated Airports, Post Sydney Aviation Alliance Acquisition of Sydney Airport**

(Accurate as at March 2022, and informed by data from publicly available airport and investment group reports, and CAPA database)

While none of these cross-ownership arrangements currently breach the provisions in the *Airports Act* – as they only apply to certain airport pairs that were deemed relevant at the time (SYD-MEL, SYD-BNE and SYD-PER) – the significant concentration of ownership among the leased federal airports indicates that the intent of the cross-ownership provisions is no longer being served by limiting it to just these pairs. As the total number of owners and investors across these airports continue to shrink, there are added risks of commonality of strategy, and coordination between the airports, which further diminish the effects of any competition.

A 2016 analysis of pro-competition rules in airport privatisation around the world found that “*Different airports that share common control have lower incentives to compete among themselves, as there is no financial loss to the common shareholders if customers (either airlines or passengers) exchange one airport for the other. Moreover, common shareholders are capable of coordinating the actions of different airport operators so as to jointly maximize their profits. For example, if two airports are under common control, shareholders may decide to concentrate investments in only one airport, allowing it to become a hub, instead of duplicating investments to develop two competing hubs.*”<sup>77</sup>

The possibility of some limited competition *between* airports for international airline services formed part of the rationale for the Productivity Commission (PC)’s determination that no significant changes to the regulatory regime were required,<sup>78</sup> and was also brought into focus as Australian states adopted different approaches in regard to international travel during the pandemic.<sup>79</sup> Some of the academic work in this area

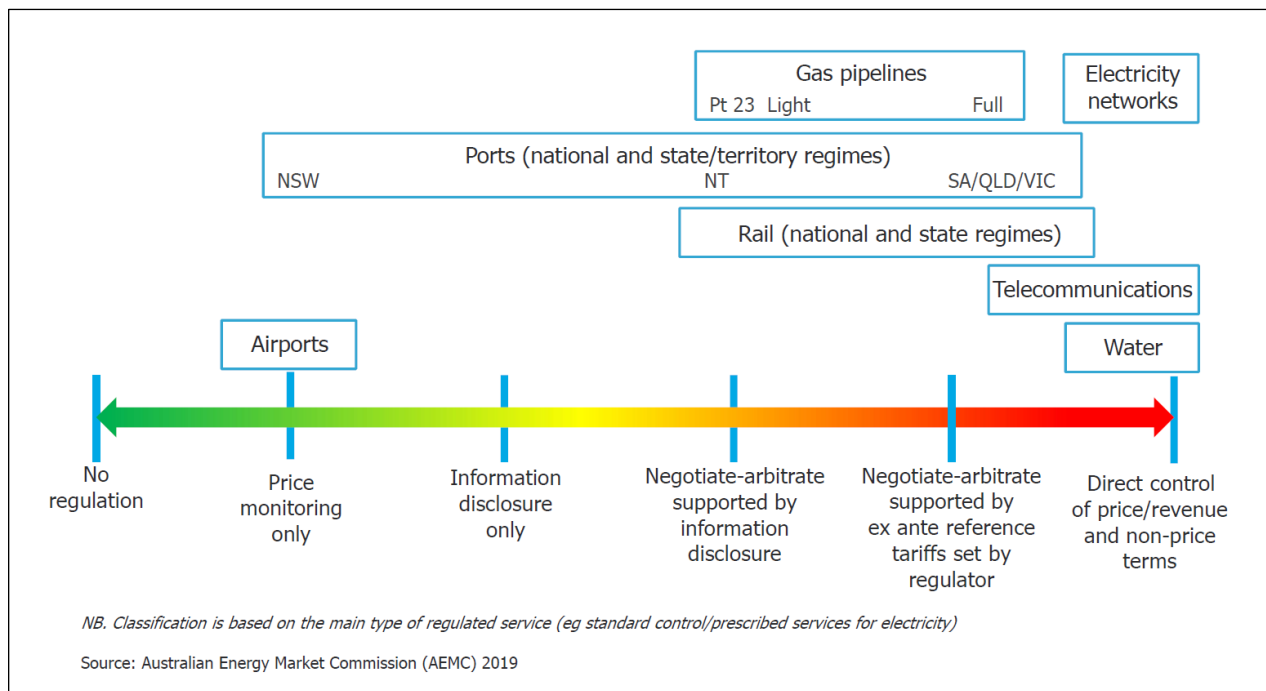
notes the growing literature on the importance of airport competition as a driver for investment and better service quality.<sup>80</sup>

The ACCC noted stakeholder concerns in relation to recent changes at Sydney Airport that *“the proposed acquisition may add to the flow of information between airports with common ownership, which could give airports more bargaining power against airlines and other users of airports”*.<sup>81</sup>

Any lessening of competition through the concentration of ownership at the major airports is a cause for concern, given the resulting potential for common directors, coordination on business strategy – and ultimately – the impacts of this on airport customers and travellers. This needs to be taken into account by Government when considering whether the Airports Regulations remain fit-for-purpose now and into the future, as part of this White Paper process. What the above issues raise is the very valid proposition that the coverage and provisions within the Regulations are no longer suitable, given the significant changes in the operating environment since they were introduced. And, more importantly, that they are no longer serving the purpose of protecting airport users and the general community as intended.

## Our Airports Will Remain an Outlier in Terms of Monopoly Infrastructure Regulation

It is important to note that none of the changes to the airports regulatory regime that have been proposed thus far, and that are referenced within this submission, shift airport regulation into anything beyond light-handed monitoring. Claims, for example, that a negotiate-arbitrate regime supported by information disclosure is “heavy” regulation, are simply not accurate, as the chart below shows (Figure 6). Such proposals – for pragmatic, reasonable reforms that bring airports more in line with other Australian monopoly infrastructure – deserve proper consideration by the Government in its examination of aviation policy in this White Paper process.



**Figure 6 – Classification of Australian infrastructure services regulation**



The absence of explicit mention of the economic regulation of airports in the Terms of Reference for the White Paper is therefore puzzling. It is a fundamental part of how the aviation ecosystem operates, a fact that was recognised in the 2009 Aviation White Paper, which dedicated a whole chapter to this topic. This seems a significant omission in a paper focused on the sector's future, as fit-for-purpose regulation must surely form part of the short (five-year) objectives, as well as the longer-term plan to 2050.

***“Major airports require an appropriate economic regulatory framework to prevent abuse of market power.”***

Aviation White Paper, 2009

Since the COVID-19 pandemic delivered the aviation industry its biggest ever economic shock, industry participants have worked collaboratively on many aspects of both managing the pandemic, and the resulting recovery, not only with each other – through the Australian Aviation Recovery Coalition<sup>82</sup>, for example – but also with Government. Despite this goodwill, however, disputes did still emerge between airports and airlines over rent relief, security and other charges. As the industry continues through the recovery phase and beyond, further disputes between airlines and airports have emerged and are expected, but there is no change on the horizon to address this.

It is critical that in deliberations for the White Paper, the experience of the Perth Airport and Qantas dispute, discussed below, is not taken to be an outlier. It acts as an important reminder of the failures of the current regulatory model, and that it is not an acceptable position for any Government to hold that litigation is the best method of dispute resolution.

If the Government is indeed focused on pursuing policy and economic reforms necessary to promote the competitiveness of the aviation sector out to 2050, the White Paper can't afford to ignore the need for exploring reforms that will deliver those benefits.

## **The Increasing Impact of Airports' Market Power Will be Felt by All Airport Users**

The PC noted that our major airports face very little, if any competition, in the provision of their services, particularly in the domestic aviation sector which accounts for more than 80% of the total market.<sup>83</sup> This lack of competition impacts not only the airlines seeking to access aeronautical services, but also other non-aeronautical businesses and passengers. The ACCC annually documents the impact to consumers of monopoly car parking pricing at airports, which, prior to the pandemic, could deliver as much as 70 cents in every dollar as profit to the airport operators.<sup>84</sup>

Evidence was presented to the PC from a range of airport users, showing the impact that this market power had on pricing and negotiating leverage.<sup>85</sup> For example, rental car companies submitted that they were forced by airports to pay up to seven times more than at a city location, with Australia holding the invidious honour of having nine of the top ten most expensive airports in the world for rental car operators; more than Heathrow, Los Angeles or Paris. This list included airports outside the major capital cities.<sup>86</sup>

In November 2019, a consortium of six rental car companies submitted an application to the ACCC for authorisation to negotiate collectively with Cairns Airport. The applicants stated that their primary rationale for applying for authorisation was to make the bargaining power between parties more equal, to negotiate more favourable and commercially reasonable terms from the airport, so that the car rental companies would be able to offer their customers better rates and improved services.<sup>87</sup>

The ACCC agreed. In response to the their interim authorisation, Cairns Airport offered a now familiar response – that the authorisation would not deliver public benefit, would risk causing significant harm to competition in

both upstream and downstream markets, and would cause economic harm to the Airport.<sup>88</sup> This argument was not accepted by the ACCC, with the draft determination stating that the collective bargaining conduct was likely to result in a public benefit which would outweigh any likely detriment from the conduct.<sup>89</sup>

All of this simply demonstrates the inescapable fact that there is a negative impact arising from negotiating with a business with market power, such as Australia's airports – resulting in higher prices for all its customers, not just airlines – and ultimately to the detriment of consumers.

### **Perth Airport vs Qantas Dispute**

In February 2022, the Supreme Court of Western Australia delivered its decision in the dispute between Perth Airport and Qantas over the aeronautical charges that Qantas was liable to pay to Perth Airport between 1 July – 7 December 2018, while the two parties were negotiating a new aeronautical service agreement following expiry of the previous one.<sup>90</sup> The key question that the court considered was how to determine what fair and reasonable remuneration would be in those circumstances.

The court found that Perth Airport possesses, and has likely exercised, substantial market power in negotiating aeronautical charges with airlines. It also found that Perth Airport acted inconsistently with the Aeronautical Pricing Principles (APPs) in establishing its prices, including that it sought to include some categories of costs that were unrelated to the provision of aeronautical services (e.g. marketing costs).

Reacting to this judgement in its June 2022 Airport Monitoring Report, the ACCC stated that this finding of the court *“indicates that the light-handed regulatory regime is not working.”* The ACCC went on to say:

*“The ACCC welcomes the fact that the Supreme Court of Western Australia resolved the dispute between the parties in a manner consistent with the APPs – by using a building block model (BBM) to determine the efficient long-run costs of the aeronautical services provided by Perth Airport. However, the court case lasted for over 3 years and resulted in substantial litigation expenses to both parties.”<sup>91</sup>*

The ACCC also noted that the WACC calculated by the court was significantly higher than the WACC determined by some Australian and overseas regulators around that time. The court determined a nominal vanilla WACC of 9.6% for Perth Airport for the period from July to December 2018. For comparison, this was 3.25 percentage points higher than the 6.34% WACC that the New Zealand Commerce Commission determined for Wellington International Airport for 2019.<sup>92</sup>

Overall, this decision provides us with a clear, contemporary demonstration of the problem faced in attempting to resolve disputes between airports and airlines. The PC heard numerous examples of these challenges during its 2018-19 inquiry. Despite this, in its final report, the PC determined that *“The four airports monitored by the ACCC – Sydney, Melbourne, Brisbane and Perth – have not systematically exercised their market power in commercial negotiations, aeronautical services or car parking.”*

Fast forward to 2022, with the WA Supreme Court Judge finding that Perth Airport does possess and has likely exercised substantial market power. This is significant finding, particularly in light of the PC also saying that they *“would not hesitate to recommend regulatory changes, including price regulation, if airports were found to have systematically exercised their market power”*; and must be considered in the assessment of the regulatory framework, for the White Paper process.

### Behaviour Not Limited to Major Airports

As the rental car examples showed, it is not only large capital city airports that are able to exercise market power – the experience of airlines and other airport users with regional monopoly airports across Australia has been well-documented. For example, a pre-COVID survey found that fewer than half of regional airports (~45%) consult with airlines prior to “major capital works entailing increased airport charges”<sup>93</sup>, with the concept of genuine, open consultation and co-design representing exceptional, rather than usual behaviour. Further illustrating the lack of transparency and consultation, the same survey noted that increased charges are often levied with little forewarning, with an overwhelming majority (86%) of regional airports admitting that they only give airlines three to six months’ notice of changes to airport charges<sup>94</sup>, often after tickets have already been sold.

A 2018 Senate inquiry shone a light on the challenges faced by airlines operating and sustaining services to regional Australia.<sup>95</sup> The high airport charges across regional airports are a significant element of this challenge. This is evidenced not only by small regional carriers going into administration<sup>96</sup>, but also by the cessation of some regional routes.

Both pre- and post-COVID, A4ANZ has been made aware of numerous examples of additional charges being added, without consultation or the ability to scrutinise the modelling on which the new costs are being claimed. This is a widespread issue that is discussed elsewhere in the context of the ACCC Review, but it is worth noting that regional airports are not subject to the ACCC’s monitoring regime.

As we look to the future, this is likely to become more significant a challenge. With the AAA foreshadowing a \$170 million shortfall in infrastructure and maintenance funding at regional airports over the next decade,<sup>97</sup> the question of who should pay for this is a very real concern.

The unconstrained ability of all monopoly airports, large or small, to impose charges in the absence of requirements for transparency or contestability remains a problem for the sector, and ultimately, consumers.

## Next Five Years: Existing Principles & Directions for Government to Adopt

### Utilising the Airport Regulations Sunsetting Review to Make Modest Amendments

In a submission to Stage 2 of the Government’s review of the legislative instruments under the *Airports Act 1996* due to sunset in 2024 and 2025, A4ANZ noted that these Regulations – which speak to issues of efficiency, transparency, and accountability – underpin the broader goals and objectives of the Act and subordinate legislation; safeguards to protect airport users and the general community while promoting economic development and efficient operation of Australia’s privatised airports.

As outlined above, there have been significant shifts in the operating environment of the Australian aviation industry in the 25 years since the *Airports Regulations 1997* was first made. Despite this, the scope of Parts 7 and 8 have only been amended twice since – in 2012 to remove Adelaide Airport, and again in 2015 to add Sydney West Airport, or as it is now known, Western Sydney Airport (WSA) to the list of airports covered.<sup>98</sup> Over time, the concentration of ownership across airports and airport groups has increased, which – as covered earlier – has the potential to reduce the already-limited competition between airports, even further.

A4ANZ has recognised that this is not an issue that is likely to be simply solved via amendments in the *Airports Regulations*, however, it is clear that improvements can and should be made. While it may have been

reasonable to initially limit the scope of Parts 7 and 8 of the Regulations to the first tranche of privatised airports (i.e. Melbourne, Brisbane, Perth, Sydney Airport (as the busiest airport in Australia) and, later, WSA), it may be argued that – given the significant changes to airport ownership in Australia since 1997, including the privatisation of all the major and capital city airports, and the changes in concentration of ownership of these airports – the scope of Parts 7 and 8 should be expanded to cover each of the leased federal airports that service RPT flights, or – at the very least – each of the capital city airports.

Expanding the scope of airports to which Part 7 applies – requiring airports to prepare both a financial report (showing the costs associated with the maintenance and repair, and revenue in relation to the provision and use of aeronautical services and facilities and non-aeronautical services and facilities) and a directors’ report – will enhance the transparency of airports’ operation and provide the ACCC with more readily-accessible data and information as required to detect the exercise of market power. Similarly, expanding the scope of airports to which Part 8 applies will provide the ACCC with a greater level of transparency regarding the quality of services at Australia’s busiest and most significant airports, in the context of having due regard to the interests of airport users and the general community.

As part of the consideration of aviation policy more broadly as part of this White Paper process, we encourage the Department to reflect on changes that have already been proposed to the Airports Regulations that would bring them into line with today’s operating environment, ensure consistency of requirements, and improve transparency and accountability – all of which are necessary for the optimal functioning of the aviation sector now and into the future. This is important, not to duplicate the work already underway, but to use it to ensure consistency between the Regulations and the overarching policy framework that the White Paper will create.

## Implementation of Existing Independent Expert Recommendations on Reform

In its most recent Airport Monitoring Report in June 2022, the ACCC concluded that *“the current light-handed regulatory regime is not working well enough to effectively protect Australian businesses and consumers from the exercise of monopoly power by airports.”*<sup>99</sup>

Previous proposals for reform to this regulatory regime have been rejected on the basis of concerns – coming almost exclusively from airports and their shareholders – that investment in airport infrastructure might be negatively impacted if changes were made. This was a proposition accepted by the PC and the former Government,<sup>100</sup> despite the existence of evidence to the contrary from other sectors that have implemented reforms to address market power, such as exists with monopoly gas pipelines.

Whilst similar dire warnings of distorted investment were made by gas pipeline operators when the Part 23 reforms were introduced in 2017, they have not been reflected in the reality. In fact, in response to a Regulatory Impact Statement made four years later in 2021, the pipeline infrastructure operators’ peak body, the Australian Pipelines and Gas Association (APGA), noted that *“Part 23 is a good news story overall that has led to a better functioning gas market. It is relatively light-handed and supports a flexible, commercially oriented negotiate-arbitrate framework, includes appropriate exemptions, and the costs and risks associated with arbitration are so far very low – with arbitration unlikely to be triggered if market power is not being exercised.”*

The ACCC and the expert Future of Aviation Reference Panel (the Panel), both independent advisers to Government, have recommended similar reforms to those introduced in the Part 23 Gas Framework, which

retain the light-handed approach to regulation, whilst allowing access to independent expert determination in the case of intractable disputes. They have been outlined respectively as follows:

- ACCC – in its response to the PC’s Draft Report (2019):

*“Providing airlines with access to arbitration would provide a constraint on the monopolist airports’ market power without jeopardising investment. We have not argued for price regulation that applies to other monopoly infrastructure in Australia or to airports in other jurisdictions.*

*A commercial arbitration regime would be a pragmatic and flexible solution under which both airports and airlines can seek arbitration if negotiation between the two parties break down due to the exercise of market power. It is likely that having recourse to arbitration will be enough of an incentive to come to an agreement in negotiations, meaning that in practice few parties will seek to initiate arbitration.”<sup>101</sup>*

- Future of Aviation Reference Panel’s Final Report (2021) contained a recommendation (11), that:

*“The Government should implement the recommendations and findings of the stakeholder reference group for establishment of a specialised airport / airline industry arbitral institution with a dedicated panel of independent expert arbitrators, and publication of a dedicated set of arbitration rules, modified to the needs of this sector.”<sup>102</sup>*

What this demonstrates is that “a better functioning aviation market” is within our collective reach. All that is required is the willingness to adopt these proposals and work through the necessary reforms, now that the worst effects of the pandemic are behind us. The opportunity exists with the White Paper to embed these existing, sensible proposals into the policy framework – as an important first step – and to waste no further time in doing so.

# KEY CONSIDERATIONS: EFFICIENCY

## Future Trends in this Area

Competitiveness and efficiency are inextricably linked, as the previous section showed. Below we outline the existing efficiency challenges in our sector, which, without reform, will continue or worsen into the future.

### Negotiations Between Airports and Airlines Will Continue to Lack Efficiency

The ACCC has noted in its most recent monitoring report that the outcomes of negotiations between airports and airlines *“do not necessarily result in prices that reflect long-term efficient costs of aeronautical services because of uneven bargaining power between the parties.”*<sup>103</sup>

A key element influencing bargaining power is the availability of information informing pricing and other conditions. The lack of transparency causes negotiations to be unnecessarily protracted which is inefficient, costly, and often results in disputes that cannot be readily resolved, further drawing out the process. Both airports and airlines alike provided evidence of such issues in their respective submissions to the PC Inquiry in 2018-19.

The PC determined that enhanced monitoring of airports delivers transparency over airports’ operations and assists in maintaining a credible threat of additional regulation.<sup>104</sup> This is not only important for ensuring efficient access to and use of privatised monopoly infrastructure assets – it also meets the objectives of the *Airport Act 1996*; regulation that has due regard to the interests of airport users and the general community, and facilitates the comparison of airport performance in a transparent manner.

In furtherance of this objective, the PC recommended that the ACCC collect more detailed information from the monitored airports on their financial performance, to aid with transparency and the ability to more easily determine if the monitored airports are exercising their market power (Recommendation 9.4).<sup>105</sup> In doing so, the PC argued that appropriate scrutiny of airport performance required an improved evidence base, noting that while relatively high aeronautical charges at some airports *“could be consistent with the airports exercising their market power...the monitoring reports do not contain sufficient detail to make that assessment.”*<sup>106</sup> It is essential to rectify such deficiencies before future PC Inquiries are conducted, to enable these critical assessments, and more conclusive findings to be made.

When objections to the proposed expanded evidence base and increased transparency were raised by airports during the Inquiry, the PC’s response was unequivocal: *“The Commission’s proposed reforms would increase the credibility of the threat against airports that exercise their market power to the detriment of the community in the future.”*<sup>107</sup>

The then- Australian Government endorsed the above Recommendation in December 2019, and agreed, in principle, to amend Part 7 of the Airports Regulations 1997 to expand the reporting requirements for monitored airports, asserting that, *“the Government considers that increasing the transparency of prices and performance will assist it to assess airports’ market power over time, for aeronautical, car parking and landside*

***“There are strong economic and social reasons why productive commercial relationships between Tier 1 airports and airlines and airport aviation users are important, encouraging investment, infrastructure development and valuable consumer outcomes.”***

Future of Aviation Reference Panel,  
Final Report 2021

*access and services.”<sup>108</sup> The Government’s response further noted that this action “will benefit users of airports, both passengers and commercial users, and the broader community in the long-run.”<sup>109</sup>*

It is therefore especially concerning that the airports continue to reject all reasonable proposals to increase transparency, including those recommended by the PC, and endorsed by the Government.

When the ACCC consulted on the potential options to implement these new transparency requirements, the ACCC’s preferred option was accepted by a range of airport users – from international and domestic airlines to car rental companies. Despite this, and the fact that this option was less onerous than the information disclosure requirements in New Zealand, the airports and their representative body, the Australian Airports Association (AAA), again pushed back against any change.<sup>110</sup>

It is also worth noting that, despite the repeated reference to the monitoring of prices, the ACCC does not actually obtain the prices that are negotiated between airports and airlines. Instead, the ACCC uses aeronautical revenue per passenger as a proxy for the average price that the monitored airports charge airlines, and as the basis for analysing trends in pricing.<sup>111</sup> As highlighted above, its most recent monitoring report found that the outcomes of negotiations between airports and airlines do not necessarily result in prices that reflect long-term efficient costs of aeronautical services. The report welcomes the use of a building block model (BBM) to determine the efficient long-run costs of the aeronautical services.<sup>112</sup>

### **Building Block Model**

A BBM is a standard concept, used in both aviation, and by regulators of other privatised monopoly infrastructure with similar objectives to those outlined within the Airports Regulations; to ensure efficient pricing, efficiency of both capital and operational expenditure, and appropriate quality of services.

The International Civil Aviation Organization (ICAO) provides guidance on a BBM for setting airport user charges, based on four key principles: Non-Discrimination, Cost Relatedness, Transparency, and Consultation.<sup>113</sup>

The New Zealand Commerce Commission uses Input Methodologies for determining how prices are set for airport services.<sup>114</sup> This approach uses a BBM, including cost allocation, asset valuation, treatment of taxation and cost of capital.<sup>115</sup> They form part of the regulatory framework as they guide the price-setting events required under the price-quality regulation and the information disclosure requirements of airports.

***“[The BBM Framework is used to] promote outcomes in the long-term interest of customers, revenue that should reflect efficient costs, and an appropriate level of service quality.”***

Australian Energy Regulator, 2017

Perth Airport, in their 2018 PC submission, noted the use of BBMs in aeronautical agreements and that *“similar approaches are used by the Australian Competition and Consumer Commission (ACCC), the Australian Energy Regulator and jurisdictional regulators such as the Independent Pricing and Regulatory Tribunal in NSW in setting maximum allowable prices in price-controlled infrastructure sectors.”<sup>116</sup>*

This is indeed the case, with the AER using a BBM in pursuit of similar regulatory objectives.<sup>117</sup> In NSW, the Independent Pricing and Regulatory Tribunal (IPART) uses a BBM to calculate regulated business’ (e.g. water, transport) revenue requirements, which are then converted into prices.<sup>118</sup> All share a similar objective: to ensure that the resultant pricing reflects the ‘efficient costs’, with the process focused on identifying *“efficient forward-looking costs...while also protecting the medium-term interests of consumers and facilitating a financially viable industry.”<sup>119</sup>*



With Australian airports left as one of the only monopoly sectors not employing such a standardised approach, and the WA Supreme Court recommending that airports which possess market power should use one, there is a sound argument for a BBM to be embedded in the regulatory framework and required by the regulator – the ACCC – in the setting of prices at airports, as a mechanism to improve the efficiency of both pricing and negotiations with airlines.

## Aeronautical Pricing Principles Will Remain Unenforceable and Ineffective

The position of successive Governments on the principles underpinning aeronautical pricing has remained largely consistent over two decades. Initially called *Review Principles*, they were announced by the Government in 2002, in response to the PC's Report on *Price Regulation of Airport Services*.<sup>120</sup> They were developed to support the removal of price controls on airports, and to enable assessments of airport behaviour throughout price monitoring periods.

Amendments were made by the Government in 2007 – again in response to a PC Review – to address asset revaluation, 'good faith' negotiating and dispute resolution, and risk sharing.<sup>121</sup> These became the *Aeronautical Pricing Principles (APPs)*. The ACCC's 2009 Airport prices monitoring and financial reporting guideline makes explicit reference to the APPs, noting in particular, "...that aeronautical asset revaluations by airports should not generally provide a basis for higher aeronautical prices, unless customers agree."<sup>122</sup> And whilst the guideline was created to meet the Information Requirements under Part 7 of the *Airports Act 1996* and Section 95ZF of the then-*Trade Practices Act 1974*, the APPs do not actually appear in either piece of legislation. Recommendations for further amendments – to deal with anti-competitive clauses in contracts – were adopted by the Government in response to the 2019 PC Inquiry<sup>123</sup>, but an updated version of the APPs was never published.

***"The Government considers the Aeronautical Pricing Principles set an important framework for establishing prices, service delivery and the conduct of commercial negotiations at airports, [and] expects all airports and airport users to have regard to the Aeronautical Pricing Principles when negotiating future airport services."***

Australian Government response to  
PC Inquiry Report, 2019

It was stated clearly at the time the current APPs were introduced that that *"the Government expects the price monitored airports and their customers to operate in a commercial manner consistent with the Aeronautical Pricing Principles. This includes utilising commercial processes, such as independent commercial mediation/binding arbitration, for resolving disputes."* And further, that *"the Government considers that these Pricing Principles should act as a guide for the conduct of all airports, whether price monitored or not."*<sup>124</sup> In its response to subsequent PC Inquiries – in 2011 and 2019 – the Government reaffirmed these expectations.

It is clearly not efficient, by any measure, to have three consecutive PC Inquiries over 12 years recommend sector participants abide by the APPs, and for successive Governments to endorse this, whilst providing no mechanism for enforcement. They do not appear in any policy framework for the sector and are absent from all legislative and regulatory instruments, leaving their application to the goodwill of parties.

Practically, this means that the clause referring disputes to independent commercial mediation or arbitration can be – and is – simply ignored, leaving the disputes to become protracted and expensive. Again, Australia's airports are an outlier when compared to other industries, as the FAR Panel noted, but the ultimate consequences for disregarding the APPs are largely felt not by the airports themselves, but by the users of the airport, from airlines through to consumers. The objectives of the APPs are clearly not being served by this

situation and, without intervention, the public will continue to experience the negative impact of these inefficient outcomes.

More than just providing a framework for airports and airlines in the conduct on negotiations, however, the APPs have also become a fundamental element of the regulatory regime applied to Australia's monopoly airports – utilised by both the PC and the ACCC in their periodic reviews of the regime's effectiveness.

In its response to the PC's Final Report, the Government said that it *"encourages all parties to continue to work together to strengthen their commercial relationships under the current regulatory framework. It welcomes interest by some airlines and airports in working together to establish principles that could be of assistance in guiding negotiations and achieving mutually satisfactory service contract outcomes."*<sup>125</sup>

Responding to this call for collaboration on principles, a *Voluntary Aviation Industry Code of Conduct* was drafted by A4ANZ, initially in discussion with AAA, as means of enshrining the APPs in a document and to provide a process to which all parties could adhere. This voluntary, industry-led code of conduct was envisioned by A4ANZ and initially received positively by the AAA through early-mid 2022. As the industry has progressed in its recovery, however, further attempts to work together towards self-regulation through an entirely voluntary Code, were – regrettably – rejected by the AAA and its airport members. More about the Code can be found on p.36.

## Protracted and Costly Disputes Will Increase, With No Effective Resolution Mechanism

At present, one of the only available options for resolving disputes between airlines and airports under the current regulatory regime is through the courts. This was confirmed in the PC Inquiry, and by the FAR Panel. Not only is there is ample evidence available to show that litigation through the courts is an expensive and drawn-out process – it is a widely held view in Australian business that it is to be avoided.

A judge in a litigation is not necessarily required to adhere to particular timeframes nor sector-specific principles. Additionally, judgements are open to appeal, and there are innumerable examples of this resulting in disputes that remain unresolved for years and come at a significant cost to parties, not only in legal fees but lost productivity and opportunities to work constructively together while matters are before a court. There is no greater recent example of this than the dispute between Perth Airport and Qantas.<sup>126</sup>

***"Unlike other specialist and niche industries, there is currently no mechanism for efficient, and cost-effective approaches to the resolution of disputes between Tier 1 airports, airlines, and airport aviation users."***

Future of Aviation Reference Panel,  
Final Report 2021

The FAR Panel captured this challenge well, *"The disputes process is funnelled into the existing legal system, which in some cases have taken years to progress. Complex and costly legal processes are a financial drain on an industry...which is likely to be carrying significantly increased debt to be paid down long into recovery of the sector. There is also a negative impact on consumer outcomes while commercial relationships remain fractured."*<sup>127</sup>

There is clearly a better way, and we encourage the Government to explore this in the Green Paper.

## The Sector Lacks a Comprehensive Policy Framework

As indicated in the introduction, the aviation sector doesn't just interface with one Government department. One of the areas in which the lack of a comprehensive framework – and connection between policy areas - is felt most keenly is in aviation security.

All of A4ANZ's member airlines are supportive of measures to enhance security at Australia's airports; they have been, and will continue, to work cooperatively and collaboratively with Government, airports, and the travelling public to ensure that what is put in place is informed by evidence and has the best chance of success.

Historically, both the Department of Infrastructure & Transport and the Department of Home Affairs have referred to the funding of aviation security arrangements as “commercial decisions between industry participants” – despite the importance of ensuring the security arrangements at Australia's airports are implemented in the most cost-effective manner, and supported by a viable aviation industry.

With the aviation industry's viability in sharper focus since the COVID-19 pandemic – the issue of who should ultimately pay for the costs associated with the Government's enhanced security screening measures is one in which all sector participants have an interest. In a 2020-21 Pre-Budget Submission, A4ANZ made recommendations in the context of the Government's existing policy agenda on security and with a view to facilitating sound policy implementation and sustainability, to ensure that airlines, and by extension, passengers, would not disproportionately bear the costs associated with the enhanced security measures which were mandated by the Government.<sup>128</sup> This objective is now even more important, if the aviation industry is to continue on its positive trajectory and economic recovery from COVID-19, and sustain the essential services on which Australians rely.

During COVID-19, A4ANZ welcomed both the Domestic Airports Security Costs Support (DASCS) program and Regional Airports Screening Infrastructure (RASI) program, and acknowledged the critical support that these programs provided to airlines and airports struggling with the increased operational and capital expenditure associated with the Government's enhanced security screening measures. We do, however, believe that there is more work to be done – both with ongoing support for security upgrades, and with developing a framework for accountability and transparency in security charging practices across the aviation industry, some of which is outlined in the following section.

Throughout the White Paper process, there are opportunities for improvement in aviation governance, industry consultation processes, and industry support – aviation security is just one example. A4ANZ encourages the Government to explore these matters during the development of the Green Paper.

## Potential for Streamlining Trans-Tasman Travel

The development of the White Paper coincides with the 40<sup>th</sup> anniversary of the Australia–New Zealand Closer Economic Relations Trade Agreement (CER). The CER Agreement is one of the most comprehensive bilateral free trade agreements in existence, facilitating the free movement of people, goods, and services across the Tasman.<sup>129</sup>

As Australia and New Zealand have committed to creating a seamless Trans-Tasman economic environment, it follows that they should also explore the creation of a seamless Trans-Tasman travel experience.

Prior to the COVID-19 pandemic, New Zealand was the most popular outbound travel destination for Australians, with 1.5 million visitors arriving from across the Tasman in 2019, accounting for 40% of all foreign visitors to New Zealand.<sup>130</sup> Similarly, Australia was the most popular destination for New Zealand travellers, with 1.4 million visitors from New Zealand in 2019 – approximately 15% of total visitors to Australia.<sup>131</sup>

The broader industry has long been discussing a more streamlined Trans-Tasman travel experience, with the proposal for a “domestic-like” experience being championed by airlines, airports, the Australia New Zealand Leadership Forum (ANZLF), the International Air Transport Association (IATA), and the Tourism & Transport Forum (TTF), for more than a decade.<sup>132, 133, 134</sup>

Indeed, many of these groups have undertaken work on what a seamless Trans-Tasman travel experience could look like, and while these analyses have identified a number of challenges, there are also many efficiencies to be gained, which warrant further consideration.

## Next Five Years: Existing Principles & Directions for Government to Adopt

### Information Disclosure & Transparency Requirements to Ensure Efficient Pricing

As outlined above, the former Government endorsed the PC’s recommendation 9.4 and agreed, in principle, to amend Part 7 of the Airports Regulations 1997 to expand the reporting requirements for monitored airports, to enable it to better assess airports’ market power over time.<sup>135</sup>

A4ANZ was supportive of this recommendation, and, following delays due to the pandemic, welcomed the current Government’s request in June 2022, for the ACCC to commence a review and to provide recommendations on these matters. The expectation that this would be conducted in support of the Government’s review of the sunseting Airports Regulations was also welcomed, as it will enable these important improvements to be implemented in a timely manner.

A4ANZ is keen to ensure that the White Paper appropriately captures the outcomes of this review, which are expected to be released soon. It does not mean duplicating the work but instead seeing where the recommendations might be best accommodated in a broader policy framework.

***“The reforms are necessary and justified. The benefits of increasing the credibility of the threat would outweigh the costs to airports of complying with the enhanced reporting requirements and the costs to the ACCC of administering the regime.”***

Productivity Commission, 2019

For A4ANZ’s part, our response to the review supported the ACCC’s proposal to collect systematically disaggregated data and use a detailed cost allocation method<sup>136</sup>, as it balances the need for greater transparency over monitored airports operations and financial performance versus the increased compliance costs that may arise from providing more detailed financial and cost allocation data.<sup>137</sup>

A4ANZ believes that the ACCC’s proposal is a superior option to the current practice of the ACCC needing to use aeronautical revenue per passenger as a proxy for the average price that the monitored airports charge airlines, and as the basis for analysing trends in pricing and performance, as highlighted earlier.

These enhancements will support both the ACCC and the PC to accurately assess not only the pricing and performance of the monitored airports, but to determine whether a monitored airport is *exercising* its market power. This is important because, from time to time, both the ACCC and the PC have said that the absence of more detailed cost data has prevented them from being able to draw definitive conclusions – leaving them

largely reliant on theoretical economic arguments to justify their respective positions, as opposed to evidence clearly demonstrating either the presence or absence of market power exercise by monopoly airports.

In order to ensure the effectiveness of the ACCC's proposal, the ACCC will need to clearly define what is included in aeronautical and non-aeronautical, to capture the allocation methodology for both capex and opex, and ensure transparency of directly attributable, non-attributable and apportionable costs and revenues at a line level. A4ANZ further suggests that if these reforms are implemented, there should be a periodic review of its effectiveness in achieving the transparency and accountability goals outlined by both the PC and Government.

A4ANZ believes that this should be reflected in Government policy going forward, and ought to be included within the framework developed for the White Paper.

Similarly, a more explicit reference should be made within the Airports Regulations to the inputs to the pricing of aeronautical services and facilities – through a mechanism such as a building block model, as outlined earlier. This ought to be an uncontroversial measure, given that the most recent ACCC Airport Monitoring Report welcomed the use of a BBM to determine the efficient long-run costs of the aeronautical services, and which had also been recommended by the recent judgement of the Supreme Court of Western Australia in the matter between Perth Airport and Qantas.<sup>138</sup>

It is important to note that a standardised approach to a BBM does not prevent parties from being able to make their own adjustments in negotiations, including an individualised approach to smoothing the cost profile over time. It is in fact a process already used – albeit not consistently – in many airline-airport negotiations. Underscoring the importance of the BBM in determining prices for the negotiation of agreements, Perth Airport stated in their PC Submission that they were *“confident that this approach, and the inputs to it, are consistent with the Pricing Principles that have been established by the Australian Government and developed by the PC over three successive public inquiries dating back to 2002.”*<sup>139</sup>

Notwithstanding the total absence of the APPs in the legislative framework for Australian airports, there remains a strong argument for requiring airports to use a standard BBM with a common set of inputs, to improve transparency, accountability and reporting.

***“[Increased transparency] will benefit users of airports, both passengers and commercial users, and the broader community in the long-run.”***

Australian Government Response to PC Inquiry, 2019

## Embedding the Aeronautical Pricing Principles to Support Efficient Negotiations

In addition to the endorsement of successive PC inquiries and Governments outlined earlier, the ACCC has referred to the APPs as *“a framework for airports and airlines to use when negotiating prices and service levels”*. However, they also note that they are inconsistently applied by airports, to the detriment of airlines, consumers and the broader economy.<sup>140</sup> The ACCC recommended future work to improve the operation of the APPs in commercial negotiations, stating that *“if the APPs can be made more effective, this would unlock the full benefits of the APPs to airlines and thereby protect Australian businesses and consumers from excessive prices or declining service quality.”*<sup>141</sup>

The APPs are quite clearly a fundamental part of the regulatory framework that is expected to underpin the negotiations and agreements between airports and airlines, for the use of aeronautical services and facilities; regardless of how the principles are actually applied – or not applied – in practice. Despite this, there is an inconsistency in the current Airport Regulations; while a definition of *aeronautical services and facilities* is

included in a Schedule within the Regulations, no reference whatsoever is made to the *Aeronautical Pricing Principles*. This is evidently a gap.

To be clear, their inclusion in the Regulations would not make the APPs enforceable, and we urge the Government to take what the ACCC has said about making the APPs more effective into careful consideration, as part of the White Paper process.

There is good reason to give the APPs – which have been so central to Government policy statements in the decades since airport privatisation – an appropriate regulatory home. Their placement in the Regulations would ensure alignment between the regulations and Government policy.<sup>142</sup>

***“If the government was to endorse principles for negotiating and contracting, this would guide the behaviour of both airports and airlines and lead to a substantial improvement in outcomes through more timely and less expensive negotiating processes.”***

Australian Airports Association, 2019

It is now clear that the Government will need to take an active role in a mechanism to embed the APPs within the regulatory framework – not just leave the application of the APPs to the goodwill of parties at the time of negotiations. Given the AAA’s submission to the PC Inquiry (see quote opposite),<sup>143</sup> and the fact that the then-Government *did* endorse a set of principles in its response, A4ANZ had been optimistic about the prospects of good-faith participation in collaborative efforts to progress work to embed the APPs through a tool such as an industry code of conduct. Unfortunately, however, as outlined elsewhere, that has not been the case in the time since.

The embedding of the APPs as part of the Regulations is an important first step. A shared policy goal, however, is not enough to change the practices of two decades, or to prevent or solve intractable disputes when they occur. Access to an efficient and effective dispute resolution mechanism between airports and airlines is more relevant to the Government’s policy objectives than ever.

## An Efficient Mechanism for Independent Dispute Resolution is Needed

Underscoring the importance of an effective, efficient dispute resolution mechanism, the FAR Panel noted in its report to Government *“Intractable commercial disputes have the opposite effect [to productive, commercial relationships] and underscores why many senior industry leaders interviewed by the Panel are calling on government to assist with access to an efficient and effective dispute resolution mechanism for Tier 1 airports, airlines and airport aviation users.”*<sup>144</sup>

As noted earlier, the ACCC has opined on dispute resolution processes such as arbitration, as a means to avoid protracted and expensive court proceedings; and suggested that in practice, few parties will actually seek to access this option.<sup>145</sup> Where independent expert determination, or arbitration is required to resolve a dispute, readily-available guidance exists in the *Resolution Institute Rules for Arbitration 2020*, which are consistent with the Commercial Arbitration Act in each state and territory of Australia.<sup>146</sup>

In the short-term, the Government could simply adopt the advice of the FAR Panel for a ‘quick win’ by establishing a stakeholder reference group to *“consider suitable commercial arbitration models and rules (including an Industry Code of Conduct as an alternative) tailored to the sector but with a specific focus on a model with the efficient, cost-effective approach to the resolution of disputes between Tier 1, Australian airports and Apex airlines and Tier 1 airport aviation users.”*<sup>147</sup>

Addressing the Panel’s alternative proposal, we outline considerations for a Voluntary Code of Conduct below.



## Voluntary Aviation Industry Code of Conduct

Voluntary codes of conduct offer a number of benefits which include, but are not limited to:

- greater transparency of the industry to which signatories to the code belong;
- greater stakeholder or investor confidence in the industry/business;
- ensuring compliance with the Consumer & Competition Act to significantly minimise breaches
- a competitive marketing advantage;
- greater flexibility than government legislation and can be amended more efficiently to keep abreast of changes in industries' needs;
- less intrusive than government regulation;
- industry participants have a greater sense of ownership of the code leading to a stronger commitment to comply;
- the code acts as a quality control within an industry; and
- complaint handling procedures under the code are generally more cost effective, time efficient and user-friendly in resolving complaints than government bodies.<sup>148</sup>

A draft Voluntary Aviation Industry Code of Conduct was prepared by A4ANZ in, drawing on guidance from ACCC's *Guidelines for developing effective voluntary industry codes of conduct*<sup>149</sup> and Treasury's *Industry Codes of Conduct Policy Framework*<sup>150</sup> - the latter which highlights just how helpful an industry code could be in this particular instance, given that such codes often contain a set of requirements to:

- improve transparency and certainty in contracts;
- set minimum standards of conduct; and
- provide for dispute resolution procedures.<sup>151</sup>

All the above are areas which have been identified as requiring attention, as outlined earlier in this submission. They were also part of the principles that informed the drafting of the Voluntary Aviation Industry Code of Conduct in 2022. In addition to AAA, A4ANZ provided regular updates on the process and a copy of the draft to the ACCC, Treasury, the Department of Infrastructure, Transport, Regional Development, Communications and the Arts, as well as ministerial offices.

Following the rejection of the Code by airports, there are reasonable grounds for the Government to prescribe a code for the sector. Prescribed industry codes are designed to achieve minimum standards of conduct in an industry where there is an identifiable problem to address, and they cover the relationship between industry participants and with their customers. The first option is a voluntary code, only applying to those who sign up, while others are made mandatory, and the industry must follow them; both are regulated by the ACCC.

The decision-making criteria to move from attempted self-regulation to a prescribed code are detailed in the Treasury guidance.<sup>152</sup> It notes that governments will generally not consider bringing forward a prescribed industry code unless evidence exists to indicate that self-regulation has been attempted within the industry and failed to address the problem adequately – a threshold that has now been met by the good faith attempts of A4ANZ to work with AAA on a self-regulated Code.

A4ANZ is keen for the Green Paper to properly consider the available options for dispute resolution, so that the resulting White Paper policy framework can embed an efficient and effective system.

***“Codes can play a valuable role in bringing industry participants together...to find ways to address problems in commercial dealings between them...fostering long term changes to business culture that can drive competitiveness, sustainability and productivity in the sector.”***

Treasury. Industry Codes of Conduct Policy Framework, 2017



## Government-Aviation Sector Interface

The need to improve the interface the sector has with Government, under a more coherent policy framework is not a new issue, nor is it necessarily unique to aviation. It was recognised in the 2009 White Paper, and also in both the Aviation Recovery Framework and Future of Aviation (FAR) Panel Report in 2021.

The Aviation Recovery Framework announced the formation of a new *Strategic Aviation Advisory Forum*, designed to advise Government on the sector's recovery via annual 'health checks' and bring the concerns and views of the sector to the Government through the recovery period. The forum was also tasked to inform targeted research on priority topics.<sup>153</sup>

The FAR Panel had suggested that an aviation think tank, ideally comprised of strategic thought leaders from both inside and outside the Australian aviation eco-system, be formed to provide a continuing source of high-level strategic advice to the Government on the development and support of Australian aviation, during the potentially volatile pandemic recovery period and into the future.

The Panel's full recommendation was that *"The Government should establish an Australian aviation think tank in order to convene new ideas, research and innovation, to inspire technological growth and opportunities for Australia to be a world leader in the industry, and to facilitate multi-stakeholder exchanges on key issues of strategy, policy development and communications for the benefit of both the Australian aviation industry and Australia as a whole."*<sup>154</sup>

Neither were established by the former Government, but the recommendations provide evidence of the clear challenge that sector participants face when needing to deal with so many different departments on aviation policy issues, in the absence of a connected, comprehensive policy agenda or framework.

### Aviation security

Returning to aviation security as a case-study for how this interface, and therefore its efficiency, could be significantly improved, it is again instructive to consider the recommendations of the FAR Panel. The Panel noted that *"it is clear that the upgrade of existing security screening equipment mandated by the Department of Home Affairs will have implications beyond the cost of the equipment. Examples from Australian airports which were brought to the attention of the Panel included, necessitated capital building works, changes to building services and impacts on surrounding areas of the terminals as a consequence of the mandated upgrades"*. The Panel then made the following recommendations in the form of "quick wins" that the Government could adopt:

- *The Government [should] appoint an industry stakeholder group, to develop and implement a set of pricing principals for aviation security designed to ensure transparency and accountability on the part of both airports and aviation airport users (i.e. airlines, general aviation etc) in the levying of security fees and charges;*
- *The stakeholder group, may also present an opportunity for Government to engage directly with industry on possible funding opportunities / models to assist airports to offset the ongoing costs associated with Government mandated security changes including ongoing maintenance, and replacement life costs etc.*
- *The Government should engage in transparent consultation with the industry stakeholder group regarding any future proposed security amendments so as to ensure these are consistent with international security standards, practical and cost-effective for industry.*<sup>155</sup>

These are all still highly relevant options today, and for the future. A4ANZ suggests that a key starting point for the work of such a stakeholder group would be the development and implementation of a formal set of pricing principles for aviation security. While some progress was made in this space under the Australian Airline Financial Relief Package (AAFRP) – which applied principles and associated examples of “reasonable” costs in the administration of the DASCs program – there remains the need for more than just guidance, as disputes were still occurring under these programs. These were most often in cases where insufficient information was provided by an airport to clearly justify invoiced charges or resulted from a difference of opinion as to what constitutes a “reasonable” security charge. Furthermore, as we have outlined elsewhere, there is no efficient mechanism for resolving these disputes.

It is frustrating to be at this point in 2023, given that, when Commonwealth Airports were first privatised, the then-Treasurer issued Direction 13 (pursuant to Section 20 of the Prices Surveillance Act) in which airport operators were explicitly permitted to “*pass through to users 100% of costs related to Government Mandated Security Requirements.*”<sup>156</sup> Significantly, Direction 13 also limited the recovery from the Australian Protective Service (APS) charge – which generally included passenger screening, baggage screening, and counter-terrorism security – to no more than 100 per cent of the costs associated with its provision.

In the absence of such a framework today, A4ANZ agrees with the FAR Panel’s first recommendation, for Government to work with industry to agree a set of principles, now ideally through the White Paper processes.

There is both historical and international guidance that could be useful to inform the process of developing these principles, and we encourage the Government to consider both the International Civil Aviation Organization (ICAO)’s policies on security charges<sup>157</sup> (see Box 2), as well as the ACCC’s guidance on security charges that was put in place when airports were first privatised.<sup>158</sup> This guidance on what constituted government-mandated security requirements stated that only ‘direct costs’ should be passed through and favoured the ‘avoidable cost’ model. The ACCC noted that “*The price cap instruments include a pass-through provision for direct costs of providing government-mandated airport security requirements. These requirements cover passenger screening, baggage screening and counter terrorist security.*” They were removed when the regime shifted from price caps to monitoring only.<sup>159</sup>

Drawing on these sources of guidance, a new set of principles would ideally detail the following:

- a) appropriate boundaries on what constitutes a recoverable security charge;
- b) requirements for transparency in how costs are calculated;
- c) a mechanism for airlines to have input into the security services obtained and how they are procured; and
- d) an acceptable dispute resolution procedure where the parties cannot reach agreement on how government-mandated security charges are to be calculated and passed through.

The agreed principles should then be enshrined in any program which provides funding for aviation security charges, to improve transparency and accountability.

A4ANZ further urges the Government to work with industry – such as through the FAR Panel’s proposed stakeholder group and/or as part of the Green Paper process to:

- determine what security-related costs can reasonably be passed on to airlines (and ultimately, to passengers); and
- develop safeguards to expressly prohibit airports from adding commercial margins to any costs incurred by airports in implementing mandated aviation security measures.

### Box 1: ICAO's Policies on Charges for Airports and Air Navigation Services

ICAO states that in relation to security charges, “States are responsible for ensuring the implementation of adequate security measures at airports pursuant to the provisions of Annex 17 — Security to the Convention on International Civil Aviation. They may delegate the task of providing individual security functions to such agencies as airport entities, aircraft operators and local police. It is up to States to determine in which circumstances and the extent to which the costs involved in providing security facilities and services should be borne by the State, the airport entities or other responsible agencies.

With reference to the recovery of security costs from the users, the following general principles should be applied:

- i) Consultations should take place before any security costs are assumed by airports, aircraft operators or other entities.
- ii) The entities concerned may recover the costs of security measures at airports from the users in a fair and equitable manner, subject to consultation.
- iii) Any charges for, or transfers of, security costs to providers, aircraft operators and/or end-users should be directly related to the costs of providing the security services concerned and should be designed to recover no more than the relevant costs involved.
- iv) Civil aviation should not be charged for any costs that would be incurred for more general security functions performed by States such as general policing, intelligence gathering and national security.
- v) No discrimination should be exercised between the various categories of users when charging for the level of security provided. Additional costs incurred for extra levels of security provided regularly on request to certain users may also be charged to these users.
- vi) When the costs of security at airports are recovered through charges, the method used should be discretionary, but such charges should be based on either the number of passengers or aircraft weight, or a combination of both factors. Security costs allocable to airport tenants may be recovered through rentals or other charges.
- vii) Security charges may be levied either as additions to other existing charges or in the form of separate charges but should be subject to separate identification of costs and appropriate explanation.

Ultimately, there needs to be a better mechanism for cross-portfolio governance to ensure that aviation security is informed by evidence and implemented in the most cost-effective and practical manner.

As part of the White Paper process, the Government should consider a more suitable governance model for aviation security to ensure that policy development and implementation do not occur separately. This model should include working closely with industry at the policy development stage to ensure that implementation issues are considered and addressed earlier in the process.

### Sustainability

Similar to aviation security, and as noted earlier in this submission, sustainable aviation involves another set of complex issues which sit within the purview of multiple government departments – for example, the Department of Infrastructure & Transport, Department of Climate Change, Energy, the Environment and Water, the Department of Industry, Science, and Resources, the Department of Agriculture, and potentially the Department of Defence, pending their actions in the sustainable fuels space.

As we move towards the aviation sector reaching the goal of net zero emissions by 2050 – along with the broader Australian economy – it will be critical to ensure that the industry-government interface is improved, and that policies that impact the aviation sector are considered from a whole-of-government perspective.

Likewise, economy-wide policies on energy, climate, and environment should be considered by Departments and Government more broadly in the context of their interaction with, and impact on, the Australian aviation industry.

## Streamlining Trans-Tasman Travel

In 2019, after the annual bilateral leaders' meeting, the Australian and New Zealand Prime Ministers released a joint statement reiterating their commitment to creating a more streamlined, efficient, and secure Trans-Tasman travel experience.<sup>160</sup> While this work was understandably shelved during the response to the pandemic, A4ANZ would encourage the Department, border agencies, and Government more broadly, to expand and build on this commitment and explore the feasibility of a “domestic-like” Trans-Tasman travel experience.

The COVID-19 pandemic demonstrated how well governments, border agencies, and industry on both sides of the Tasman could work together to safely resume bilateral air travel during the peak of the pandemic – and we would encourage Governments to lean into the collaborative model that already exists in this space.

In exploring what a streamlined “domestic-like” Trans-Tasman travel experience could look like, governments do not have to start from scratch. As noted earlier, the ANZLF, IATA, and TTF – have all undertaken work on what a seamless Trans-Tasman travel experience could look like and outlined the efficiencies to be gained.

As a starting point, A4ANZ would encourage the Government to revisit these analyses and proposals. The anniversary of CER agreement provides both the Australian and New Zealand Governments with the opportunity to reflect on previous achievements and set a course of action for the next 40 years.

# CONCLUSION

## Comprehensive Aviation Policy Framework – A Timely Opportunity

In a diverse range of policy areas spanning aviation security, sustainability, and more, there have been calls for greater collaboration, industry input, and a whole-of-government approach to policy.

As such, we would hope that due consideration is given to the issues raised in this submission and others, in the context of what the White Paper represents, rather than avoiding, excluding or deferring them because they may be considered elsewhere. Postponing consideration of these issues will defeat the purpose of what this White Paper is intending to achieve – to articulate long-term policy directions that promote the efficiency, safety, sustainability and competitiveness of the aviation sector out to 2050. Furthermore, as we have outlined in this submission, there is space for – and benefit in – these processes being undertaken concurrently.

Improving the competitiveness and efficiency of our sector will enable progress to be made on some of the more ambitious initiatives cited in this submission, such as a streamlined Trans-Tasman travel experience, and a robust domestic SAF industry.

In an area such as sustainability, it will be critical for Government to expand beyond its list of typical aviation sector actors in the process of developing the Green and then White Paper, given the portfolio areas that are involved in getting this policy right. It will also be important to work together with the Jet Zero Council, and ensure that any policy developments progressed through that process in the short-term are also embedded in the White Paper.

The opportunity to create a coherent, comprehensive aviation policy framework is an important one, and it comes at a critical time for our sector. A4ANZ encourages all aviation sector participants to see it in this light.

## The Next Five Years: Quick Wins, With Industry Collaboration

Throughout this submission, at the end of each chapter, we have outlined for Government a range of existing policy directions that could be adopted as part of the White Paper. Many of the recommendations have come from expert analysis and insight – such as from the ACCC or the Future of Aviation Reference Panel – and represent sensible, modest reforms that Government, as well as industry, can and should support.

Given that the Future of Aviation Reference Panel was specifically tasked to consider practical actions that could be implemented in the short term, and that they already consulted widely with industry before making their recommendations – A4ANZ strongly encourages the Government to consider their report (see Appendix D) when drafting the Green Paper.

## Leadership and Support for Sustainable Aviation

Achieving the targets required to reach net zero emissions will not be easy and will take sustained and cooperative action by all stakeholders across the Australian and global aviation sectors – including airlines, airports, air traffic control, ground handling companies, fuel producers, investors, regulators, and governments.

To set Australia's aviation industry up for success in reaching net zero by 2050, the Government – in the short term – should:

- Use the Australian Jet Zero Council to provide leadership on SAF, establish a coordinated national strategy, and implement a supportive policy framework.
- Progress economic and regulatory policy measures – in consultation with the Jet Council, and through opportunities presented by the National Reconstruction Fund, the Powering the Regions Fund, and the Safeguard Transformation Stream – to support the production, supply, uptake, and deployment of Australian-made SAF. These could include:
  - Incentivising and prioritising feedstock for SAF production;
  - Supporting or de-risking refineries;
  - Direct subsidies for SAF;
  - Including SAF in public procurement; and/or
  - An Emissions Intensity Scheme or SAF mandate with appropriate supportive policies and incentives.
- Work with industry to design and implement the necessary supporting policies, infrastructure, and investment required for new aviation technologies to be deployed in the Australian aviation sector – and ensure that CASA is adequately resourced and prepared to support the certification process of novel airframe configurations and propulsion systems.

A4ANZ's Roadmap details a suite of policy options that have been implemented internationally to support the development of local SAF industries. We would urge the Department to consider these policies and international experience in both the development of the Green Paper and the discussion of policy options at the Australian Jet Zero Council.

## The Introduction of a Workable Dispute Resolution Mechanism

As this submission makes clear, the competitiveness and efficiency of our aviation sector is being held back by a regulatory regime for airports that is no longer fit-for-purpose, and is out of step with how other monopoly infrastructure assets are treated. Aviation deserves to have a system that will deliver the same benefits as other sectors have experienced: a regulatory framework that *is* fit-for-purpose, addresses bargaining power imbalances, and better protects Australian consumers from the impact of monopoly market power.

Our sector is already playing catch-up, so the introduction of a workable dispute resolution mechanism must be a priority for this White Paper, particularly in the short-term.

Accepting the recommendation of the FAR panel to address alternative dispute resolution mechanisms for airports and airport users, the Government could:

- follow the Panel's next recommendation to task a stakeholder reference group to consider suitable commercial arbitration models and rules (including an Industry Code of Conduct as an alternative), tailored to the aviation sector with a focus on the efficient, cost-effective approach to the resolution of disputes between airports and airlines;
- directly prescribe a Voluntary Aviation Industry Code of Conduct.

Access to a workable dispute resolution mechanism would address both Government and sector priorities for keeping costs as low as possible – in all parts of the aviation ecosystem – by avoiding protracted, inefficient, and costly disputes.

Importantly, this initiative could be progressed while other reform measures, including the amendments to improve transparency through enhanced ACCC monitoring, and any amendments to the Airports Regulations, such as embedding the Aeronautical Pricing Principles, are likely still some years away from implementation.

Airlines, airports, and the aviation sector more broadly provide vital services to the Australian community and are key drivers of Australia's economy. It is now more important than ever to take the opportunity to put in place reforms that will deliver an efficient, competitive, and sustainable aviation sector.



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# APPENDIX A

## A4ANZ Comments on the Aviation White Paper Terms of Reference

TERMS OF REFERENCE	COMMENTS & CONSIDERATIONS FOR GREEN PAPER	USEFUL REFERENCES & RESOURCES
1. <i>Aviation's role in economic development, trade and the visitor economy – general, domestic, regional and international aviation.</i>	<ul style="list-style-type: none"> <li>A4ANZ encourages the Department to explore this issue through the lens of the contribution of individual participants in the aviation sector value chain in order to understand the unique factors that enable them to contribute to economic development and growth; and address potential barriers to this full participation.</li> <li>It is important to recognise the aviation sector's key role in Australia's economy – not only in tourism and the visitor economy, but in high-value freight, and the community more broadly.</li> </ul>	<ul style="list-style-type: none"> <li>A4ANZ Report – Airlines: Helping Australia's Economy Soar (2019)</li> <li>BCA Report – The Role of Aviation in Australia's Economic Recovery (2020)</li> <li>Future of Aviation Discussion Paper (2020) and Future of Aviation Reference Panel Report (2021)</li> </ul>
2. <i>How to maximise the aviation sector's contribution to achieving net zero carbon emissions including through sustainable aviation fuel and emerging technologies.</i>	<ul style="list-style-type: none"> <li>This issue is critical to the future of the aviation sector, and must be considered in the context of other factors that affect the aviation ecosystem, including for example, economic development (noted above).</li> <li>This highlights how aviation policy is broader than traditionally defined, and how important a whole-of-government approach is to developing an sustainable policy framework for the Australian aviation sector.</li> <li>Maximising the aviation sector's contribution to net zero will involve climate policy, energy policy, environmental and economic policies – it is not limited to transport policy, and the framework should reflect this.</li> </ul>	<ul style="list-style-type: none"> <li>Australian Roadmap for Sustainable Flying – Net Zero by 2050 (2022)</li> <li>Australia's Bioenergy Roadmap (2021)</li> <li>CSIRO-Boeing SAF Roadmap (2023 – To Be Released)</li> <li>Future of Aviation Reference Panel Report (2021)</li> </ul>
3. <i>Changing aviation technologies and ways to position our policies, regulations and systems to encourage uptake and manufacturing of new, more efficient, transport technologies.</i>	<ul style="list-style-type: none"> <li>This point requires clarification regarding what is in scope – for example, does this point seek to cover unmanned aerial vehicles (UAVs), and advanced air mobility (AAM), or zero emission aircraft and broader hydrogen technologies (ie. Power to Liquid [PtL] SAF)?</li> <li>Regardless, as noted above, A4ANZ would urge the Department to recognise the relative impact on total sector emissions of UAVs, AAM, and zero emission aircraft, to ensure that the right balance is struck with policy prioritization, when compared to other technology like SAF, which presents significant opportunities for Australia.</li> </ul>	<ul style="list-style-type: none"> <li>NEAT Policy Statement (2021)</li> </ul>
4. <i>Airport development planning processes and consultation mechanisms that consider the impact and changing nature of aircraft noise and related expectations on the role of noise sharing and noise mitigation.</i>	<ul style="list-style-type: none"> <li>A4ANZ is concerned that this point conflates multiple complex issues. Airport planning and consultation mechanisms are important to optimise for reasons beyond consumer concerns, e.g. noise.</li> <li>Transparent and appropriate consultation on airport development is essential for airport users (especially airlines) as it relates to significant investment in infrastructure and long-term planning. As such, A4ANZ suggests separating these two issues into separate points.</li> </ul>	<ul style="list-style-type: none"> <li>ACCC Consultation Paper - More detailed information on financial performance of airports (2022)</li> </ul>
5. <i>How to support and regenerate Australia's general aviation sector.</i>	<ul style="list-style-type: none"> <li>A4ANZ has no specific comments</li> </ul>	<ul style="list-style-type: none"> <li>RRAT Inquiry into Australia's General Aviation Industry (2022)</li> <li>Future of Aviation Reference Panel Report (2021)</li> </ul>



<p>6. <i>Future industry workforce skills and training requirements.</i></p>	<ul style="list-style-type: none"> <li>• The industry’s workforce skills and training requirements must be examined within the context of the critical role that aviation plays in Australia’s productivity and economy more broadly, not just for the sector itself.</li> <li>• Similarly, it is important to recognise the unique skills and training required by the aviation industry workforce – the significance of which was highlighted by the COVID-19 pandemic, and subsequent industry re-start.</li> </ul>	<ul style="list-style-type: none"> <li>○ Outcomes from Ministerial Skills Roundtable (2022)</li> <li>○ Employment White Paper (2022-23)</li> <li>○ Future of Aviation Discussion Paper (2020) and Future of Aviation Reference Panel Report (2021)</li> </ul>
<p>7. <i>Appropriate consumer protections and access to services.</i></p>	<ul style="list-style-type: none"> <li>• While both issues in this point relate to consumers, A4ANZ is concerned that this point conflates two very different and separate issues - consumer protections, and accessible transport.</li> <li>• A4ANZ encourages the Department to separate these two issues to enable appropriate consideration of both.</li> </ul>	<ul style="list-style-type: none"> <li>○ Competition and Consumer Act (2010)</li> <li>○ ACCC Guidance on Flight Delays &amp; Cancellations</li> <li>○ Modernisation of the Disability Standards for Accessible Public Transport 2002 (2020-)</li> <li>○ 2022 Review of the Disability Standards for Accessible Public Transport 2002 (2022-)</li> </ul>
<p>8. <i>Maintaining fit-for-purpose aviation safety, air navigation and aviation security systems and service delivery agencies.</i></p>	<ul style="list-style-type: none"> <li>• Aviation security is a broad and complex issue, spanning multiple Departments and portfolios, and requires its own focus when making recommendations about the future.</li> <li>• It is quite separate to safety concerns and air navigation issues, which themselves deserve proper examination in the context of a policy framework.</li> <li>• A4ANZ encourages the Department to deal with these issues separately, to enable appropriate consideration of each.</li> </ul>	<ul style="list-style-type: none"> <li>○ Sustainable Security Screening at Regional Airports – Discussion Paper &amp; Submissions (2020)</li> <li>○ Domestic Airports Security Costs Support (DASCS) Program – Principles, and examples of “Reasonable Security Costs” (2020-21)</li> <li>○ ICAO Security Pricing Principles</li> </ul>
<p>9. <i>The role of airlines and airports in supporting regional economies.</i></p>	<ul style="list-style-type: none"> <li>• This should be linked to both points 1 and 8, due to the nature of Australia’s geography and economy, and the impact that security costs have on the viability of regional routes.</li> <li>• The economic contribution from aviation in regional communities is also affected by local, state, and federal policies and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>○ RRAT Inquiry: The operation, regulation and funding of air route service delivery to rural, regional and remote communities (2019)</li> <li>○ A4ANZ Report – Airlines: Helping Australia’s Economy Soar (2019)</li> </ul>
<p>10. <i>Other significant issues raised during the consultation process.</i></p>	<ul style="list-style-type: none"> <li>• The original 2009 Aviation White Paper dedicated an entire chapter to the economic regulation of airports, such is its significance in a comprehensive aviation policy framework. The omission of this as an explicit issue listed in the 2023 Terms of Reference appears to be a significant oversight.</li> <li>• The economic regulation of airports underpins relationships between airports and their major customers and, as a result, impacts the whole aviation ecosystem, including each of the issues listed in the Terms of Reference.</li> <li>• A4ANZ has raised during consultations with LEK Consulting and the Department, that airport regulation must be specifically considered as part of the upcoming Green Paper, and final Aviation White Paper.</li> <li>• The Treasurer has opted to defer the next Productivity Commission inquiry into the economic regulation of airports, which will enable the White Paper to consider this issue without duplication.</li> </ul>	<ul style="list-style-type: none"> <li>○ Future of Aviation Reference Panel Report (2021)</li> <li>○ ACCC Airports Monitoring Reports</li> <li>○ Australian Aviation White Paper (2009)</li> <li>○ Sunsetting Review of Airports Regulations 1997 (2022-)</li> </ul>

# An Australian Roadmap for Sustainable Flying: REACHING NET ZERO BY 2050



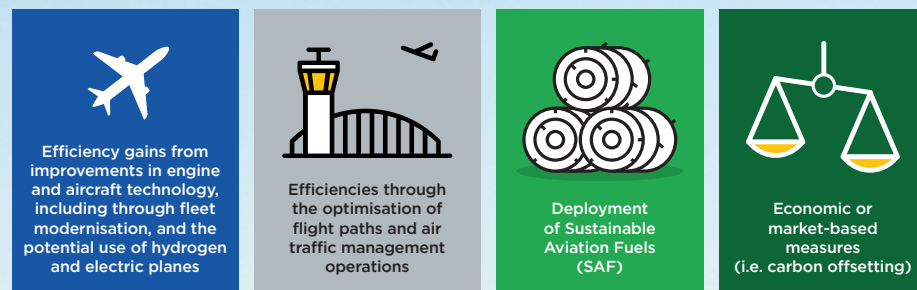
Australians love to fly – but we also need to fly; our connectivity, our regions, and so much of our national economy depends on it.

As Australia's aviation sector has grown, so too have its emissions.

While aviation is recognised as one of the most difficult sectors to decarbonise, Australia's airlines are committed to reaching net zero emissions by 2050.

Supportive government policy will be critical in enabling the aviation industry to transition to low and zero-emissions technologies.

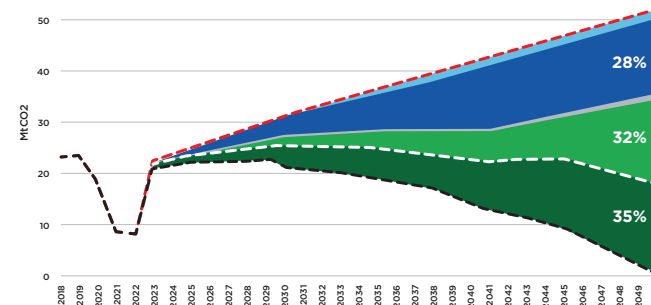
The Roadmap<sup>1</sup> explores the path towards decarbonising flying in Australia, through the potential emissions reductions delivered by four key measures:



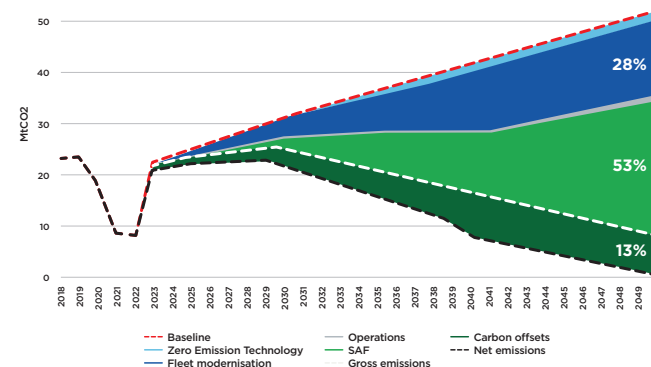
These may not be the only pathways to reaching net zero emissions; however, it is clear that the extent to which airlines are able to use SAF – the biggest contributor to reducing emissions – will be directly influenced by Government policies and investment.

## Pathways to Net Zero by 2050

This Conservative Scenario presents a projection of SAF uptake based on announced SAF purchasing commitments by Australian airlines.



This Ambitious Scenario presents a more aggressive development path for SAF that may be realised with strong industry and government commitment, and a supportive policy environment.



## What is the potential of an Australian SAF industry?

With industry and Government working together to create a supportive investment and policy environment, an Australian SAF industry could:



Create more than **7,400 jobs by 2030**, and up to **15,600 jobs by 2050** – most in regional areas<sup>2</sup>



**Secure Australia's domestic fuel security** – removing reliance on imported liquid aviation fuel<sup>3</sup>



Contribute an additional **\$2.8B in GDP per year by 2030**, and up to **\$7.6B per year in 2050**<sup>4</sup>

# Airlines in Australia are committed to working with government and industry to decarbonise aviation by:

## Developing a domestic Sustainable Aviation Fuels (SAF) Industry

The primary facilitator of the aviation industry reaching net zero by 2050 – a local SAF industry also has significant benefits for the economy more broadly.

The industry commits to working at pace with governments and other stakeholders to create a robust, sustainable, and viable Australian SAF industry.

Airlines have already committed to:

- ✓ developing voluntary passenger and corporate/government buying programs to facilitate the purchasing of SAF, and
- ✓ investing in the development and uptake of SAF.



## Mitigation through high-quality offsets:

While airlines are aiming to reduce gross emissions through new technology, operational efficiencies, and the utilisation of SAF, high-quality carbon offsetting will remain a key lever in achieving the industry's commitment to reach net zero emissions by 2050.

The industry commits to continuing to invest in robust, high-quality, and high-integrity offsetting projects – both domestically, and internationally – with tangible community and biodiversity benefits.



## Supportive Government Policy

Realising the full potential of Australian production and deployment of SAF requires government and industry working together to develop a coordinated national vision and strategy. No individual policy will drive SAF growth on its own.

To accelerate the decarbonisation of Australia's aviation sector, a nationally consistent suite of economic and regulatory policy measures will;

- ✓ unlock industry investment,
- ✓ stimulate supply and demand,
- ✓ bridge the price differential, and
- ✓ enable adequate and sustainable feedstocks are required to develop and sustain a strong and viable SAF industry in Australia.



## Operational Improvements

Airlines will continue to implement the latest innovations and improvements in flight planning and air traffic management, and will continue to pursue continuous procedural improvements to reduce emissions.

Government agencies should continue to work collaboratively with industry to optimise the flow of air traffic and ensure that Australia's airspace remains safe, secure, and efficient.



## Investment in Fleet Modernisation and Implementation of New Technology

Australian airlines will continue to implement new and efficient technologies through investing in fleet modernisation.

Zero-emission aircraft are unlikely to have significant impact on emissions in the Australian market before 2050, however, airlines commit to working with industry and Government to:

- ✓ introduce novel technologies, and ensure that the infrastructure required for these aircraft are fit-for-purpose, and
- ✓ design and implement the necessary supporting policies, infrastructure, and investment required for new aviation technologies to be deployed in the Australian aviation sector.



**Flying with net zero emissions by 2050.**



These recommendations broadly outline what is required to facilitate the aviation sector to reach its full potential in achieving the ambitious pathway to net zero emissions by 2050. They are not intended to be an exhaustive list of actions that governments could take, and the industry will continue to contribute to more detailed policy development both through the Australian Jet Council and in other forums.

Supportive government policy will be critical in enabling these commitments by industry to become the reality.



# A GREEN RECOVERY FOR AUSTRALIA'S AVIATION SECTOR

## THE IMPORTANCE OF A STRONG DOMESTIC INDUSTRY FOR SUSTAINABLE AVIATION FUELS



### What are Sustainable Aviation Fuels?



**Sustainable Aviation Fuels (SAF)** are fuels which are derived from sustainable feedstocks such as waste oils, agricultural residues, or municipal solid waste – that would otherwise go to landfill or incineration.

**80%** less carbon emissions

**SAF produces up to 80% less carbon emissions** over its lifecycle compared to conventional jet fuel<sup>1</sup> – and critically, can be used in today's aircraft engines without any special equipment or modifications.

### What is Australia's potential?

With industry and Government working together to create a supportive investment and policy environment, an Australian SAF industry could:



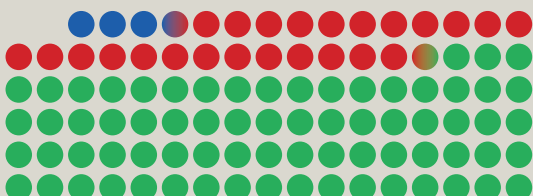
Create more than **7,400 jobs by 2030**, and up to **15,600 jobs by 2050** – most in regional areas<sup>2</sup>



**Secure Australia's domestic fuel security** – removing reliance on imported liquid aviation fuel<sup>3</sup>



Contribute an additional **\$2.8B in GDP per year by 2030**, and up to **\$7.6B per year in 2050**<sup>4</sup>



### SAF is critical to aviation decarbonisation

Globally – even assuming highly optimistic use of **electric** and **hydrogen** energy for some operations in 2050 – the vast majority of passenger flights will rely on the use of **sustainable aviation fuel**.

## Why is SAF important in Australia?

It is well recognised that aviation is one of the most challenging industries to decarbonise. Australia's geography – requiring longer flights and larger planes for critical connectivity – means that SAF must be prioritised in our efforts to reach net zero by 2050, alongside other measures like electrification, operational efficiencies, and offsetting.

Australian airlines currently have no option but to purchase SAF produced in other countries – spending millions of dollars offshore, that could instead flow into the Australian economy.<sup>6</sup>

With the current volatility in both supply and pricing of oil, it has never been more important to invest in building domestic SAF production capability today, so that we will have sufficient supply for the future.

### An Australian SAF industry will:



Reduce aviation emissions, enabling Australia to meet our commitments to net zero by 2050.



Produce reliable, secure energy for Australia's aviation and defence sectors.



Support Australian sovereign manufacturing and refining capacity.



Unlock high-paying, highly-skilled, high-technology jobs, particularly in regional areas.

## Delivering success

Realising the full potential of Australian production and deployment of SAF requires government and industry working together to develop a coordinated national vision and strategy.

The formation of a national body, like a Jet Zero Council, will bring industry and government (at a state and federal level) together, to consider and develop a policy framework that will work best for the Australian environment. We welcome the Federal Government's commitment to this.<sup>7</sup>

Hundreds of millions of dollars of industry investment will be unlocked if the Federal Government:



**Provides early investment in technology, feedstock supply, and commercial refineries for SAF and other biofuels.<sup>8</sup>**



**Introduces supportive policies to bridge the gap between conventional jet fuel and SAF, including tax credits, exemptions, and subsidies.<sup>9</sup>**



**Stimulates demand through participation in SAF purchasing programs, and introduces a SAF target for the Department of Defence.**

AIR NEW ZEALAND 

Jetstar 

 QANTAS

 rex.  
Regional Express

 virgin australia

1. International Air Transport Association. 2021. Sustainable Aviation Fuels: Fact Sheet 5.  
2. Frontier Economics analysis on SAF – Prepared for A4ANZ.  
3. ARENA. 2021. Australia's Bioenergy Roadmap Report.  
4. Frontier Economics. Op cit (2).  
5. Air Transport Action Group. 2022. Presentation: Net-zero Aviation Briefing Asia Pacific. [27/06/2022]  
6. Hatch, P. Qantas to buy low-carbon jet fuel in US, but no options at home. Sydney Morning Herald [15/03/22].  
7. The Hon. Catherine King MP. Address to the Sustainable Aviation Fuels Breakfast. [14/07/2022]  
8. World Economic Forum. 2021. Guidelines for a Sustainable Aviation Fuel Blending Mandate in Europe.  
9. Ibid.

# APPENDIX D

## Summary recommendations from FAR Panel Report 2021

REF NO.	RECOMMENDATION	PAGE
1.	<b>Australian Aviation Think Tank</b> A <i>Think Tank</i> tasked to stimulate conversation, conceptualise new projects that translate growth for the benefit of both the aviation eco-system and Australia, would put Australia at the forefront of global aviation industry innovation and transformation.	5
2.	<b>Aviation Centre For Education, Innovation and Technology (ACEIT)</b> A model based on the Australian Institute of Sport, for the development and promotion of the Australian aviation industry through research, training, education, mentoring and skill-based initiatives.	5 - 6
3.	<b>Aviation Ombudsman</b> Options for the implementation of an Aviation Ombudsman with an appropriately wide and roving remit, available to all of the aviation industry, to assist in dealing quickly with matters as they arise.	6 - 7
4.	<b>Sustainable Industry Funding</b> Existing government support programs should continue, and the Government should allow these programs to taper down in an organic way as Australia's scheduled vaccination program is rolled out and consumer confidence in aviation, in particular interstate domestic (followed by international) air travel returns.	7
5.	<b>Australia's Green Aviation Investment Plan</b> A comprehensive policy framework to promote the development, production, and industry uptake of locally produced sustainable aviation fuel and to incentivize industry to transition to a low-emission aviation fleet of the future has the potential to see Australia leading the aviation world.	8 - 10
6.	<b>COVID Safe Travel</b> A standardised process for pre-travel testing, vaccination requirements and documentation necessary for international travel should be urgently developed in consultation with the industry and medical experts; it should be publicised widely and quickly to restore confidence in aviation travel.	10 - 11
7.	<b>Aviation Legislation Suite Review &amp; Modernisation</b> To ensure Australia's suite of aviation legislation is a contemporary reflection of the industry, is harmonious with international best practice and, importantly, fit for purpose in a post-pandemic Australia, a priority review list of the suite of aviation legislation should be generated together with a reasonable review timetable.	11 - 12
8.	<b>Civil Aviation Safety Authority - Easing the Regulatory Burden</b> Australia's aviation sector continues to be burdened by regulations drafted in overly prescriptive terms; the forthcoming implementation period for CASA's flight operations suite requires reframing given the industry continues to grapple with the impacts of the pandemic; and timeliness in the delivery of regulation is critical to the viability of the industry. Multiple 'quick wins' and 'recommendations' are made in this section of the Annex.	12 - 14
9.	<b>Aviation Futures: Flight Training, Education &amp; Funding</b> Australia's aviation training and education sector has been significantly impacted by the pandemic. Immediate quick wins and long-term opportunities for Government to assist widely in this sector are explored in this section. There are also significant cross-opportunities to connect recommendations 1, 2, 5, and 12 with this section of the Annex.	15 - 20
10.	<b>Airports</b> The airport sector has been hard hit by the pandemic and there are immediate opportunities for Government to create certainty, and incentivise planning, development, and industry investment in the Airport sector. This section of the Annex provides several options for Government consideration from exercising lease options to variations to the <i>Sydney Airport Act</i> .	20 - 22
11.	<b>Aviation Alternative Dispute Resolution</b> Productive commercial relationships in this sector are imperative; options for an alternative dispute resolution model for the airport / airline sector are explored in this section of the Annex.	22 - 23
12.	<b>Regional Aviation: Development and Growth</b> Regional aviation is critical in a country as geographically dispersed as Australia; it is a sector which lacks the throughput of the capital cities but remains vital to the provision of essential services as well as connecting the people of Australia. In this section of the Annex, the Panel makes several recommendations and quick wins to support the future of regional aviation.	23 - 24
13.	<b>Freight and Ground Handling</b> The pandemic has highlighted the importance of Australia's freight industry, but it has also shown the vulnerabilities in this sector. As travel resumes following the COVID19 vaccine roll out, quick wins and recommendations to support the freight and ground handling industries in meeting the demand are outlined in this section of the Annex.	24 - 25
14.	<b>Aviation Security</b> The Government has mandated enhanced security screening in Australia; transparency and accountability on security charges, and support for Australia's airports via the RASI program could be addressed now, to steer the sector into recovery and in advance of the normalisation of domestic (and eventually international) passenger demand.	25 - 27