



AIRLINES FOR
AUSTRALIA &
NEW ZEALAND

THE FUTURE OF AUSTRALIA'S AVIATION SECTOR

SUBMISSION IN RESPONSE TO
THE AUSTRALIAN GOVERNMENT'S
ISSUES PAPER: FLYING TO RECOVERY

NOVEMBER 2020



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 policy 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.



The page features a background image of an airplane wing flying over a vast, hazy landscape. A dark green horizontal bar is positioned at the top. Below this bar, the word 'PREFACE' is written in large, white, bold, sans-serif capital letters. The main body of the page is divided into two vertical sections: a teal section on the left and a light blue section on the right. Each section contains three paragraphs of white text. At the bottom of the page, there is a white horizontal bar containing a footnote on the left and a page number '3' on the right. The A4ANZ logo is located in the bottom left corner.

PREFACE

The Australian Government's focus on aviation policy comes at a critical time for the sector, devastated by the impact of the COVID-19 pandemic, and only recently able to take tentative steps towards recovery. With international air travel at a standstill and Australia's domestic market well behind other countries in its restart, Airlines for Australia and New Zealand (A4ANZ) welcomes the opportunity to respond to the Issues Paper.

While A4ANZ has attempted to ensure that this submission represents the collective views of our member airlines, we encourage the Government to consider it together with the airlines' own submissions.

The submission details responses to most of the questions posed¹, drawing on evidence rather than anecdote where possible; the latter being used to provide practical examples of challenges. While airlines form our membership, our intent has been to frame our submission through a broader lens of public interest.

The overall objective of A4ANZ's submission is to contribute to an informed conversation about shaping effective aviation policy which delivers better outcomes for the sector, consumers and the economy. We

would also be pleased to contribute to further consultations, and as part of the Future of Aviation Reference Panel which is to be established.

Turning our collective minds to a five-year plan could not come at a more challenging time. The pace of change, and uncertainty about what is ahead, have never been greater for the aviation sector.

As we look to the future, however, we know that there has never been a more important moment to focus on what will give the industry its best chance of survival and the most sustainable path to recovery. With everything we have learned in the past 8 months – under the most challenging conditions for our industry – this means working together in ways we may not have previously envisaged. It means searching, collectively, for the most efficient, cost-effective, and productive ways of working, that will ensure that one part of our aviation ecosystem doesn't survive at the expense of another.

Australians need a thriving aviation sector. Our connectivity, our regions and so much of our national economic recovery depends on it.

¹ We have not provided answers to questions that are outside airspace policy, new technologies, aerodromes, or general A4ANZ's remit, for example, those relating to aviation safety, aviation.

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RECOMMENDATIONS

The Government should:

1. Continue to offer assistance under the DANS and RANS program as required, and be open to extending the programs past their end date to preserve connectivity on commercially-unviable routes, or in the event of further COVID-19 outbreaks and restrictions on travel.
2. Immediately begin working with the airlines on the development of an air crew movement protocol for domestic border controls.
3. Immediately begin working with industry on the development of a National Protocol for Border Controls For COVID-Safe International Flying to facilitate the movement of air crew.
4. Work closely with industry to develop an evidence-based, nationally consistent framework to manage international travellers. This framework should be informed by recent reviews, evolving protocols for COVID-19 testing, and explore alternatives for quarantine.
5. Work directly with the aviation industry as it seeks to scale back support during the sector's recovery, remaining flexible and open to the potential for scaling up again as required.
6. Extend the Australian Airline Financial Relief Package (AAFRP) until at least 30 June 2021.
7. Work with industry on a plan to expand the scope of the AAFRP to support the resumption of international travel in 2021.
8. Consider extending the scope of the Regional Airports Screening Infrastructure program to cover the capital expenditure costs associated with the implementation of Government-mandated security upgrades at Tier 1 and Designated Airports.
9. Ensure that funding for airports for mandatory security upgrades is subject to conditions that ensure transparency and accountability.
10. Remain open to extending the International Freight Assistance Mechanism past June 2021, as the industry will likely continue to require support as a result of international travel restrictions.
11. Retain current cabotage restrictions in place, to ensure a safe and sustainable Australian aviation industry.
12. In consultation with industry:
 - a. develop and implement a set of pricing principles for aviation security;
 - b. determine what security-related costs can be passed on to airlines; and
 - c. develop safeguards to expressly prohibit airports from adding commercial margins to charge airlines for costs incurred by airports in implementing aviation security measures
13. 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 can be addressed early in the process
14. Act on the recommendations from the King Review – particularly with regard to establishing a goal-oriented technology co-investment program to accelerate the uptake of transformative, high abatement potential technologies such as sustainable aviation fuel.
15. Work with aviation and energy industries to develop a comprehensive policy framework to facilitate and incentivise the production, uptake, and deployment of sustainable aviation fuel.
16. Expand the remit of the Emissions Reduction Fund (ERF) to include alternative fuels projects to increase participation by the transport sector.
17. Review the Waypoint 2050 report and consult with industry on the way forward to develop an inclusive and effective climate action plan for the Australian aviation industry.
18. Form a stakeholder reference group to consider the most efficient, cost-effective approach to the resolution of disputes between airports and airlines.



PART A: COVID-19 RESPONSE

A4ANZ and its members welcomed the Federal Government's decision to extend the Domestic Aviation Network Support (DANS) and Regional Aviation Network Support (RANS) until 31 January 2021 and 28 March 2021, respectively. These programs, along with the Australian Airline Financial Relief Package (AAFRP) and the International Freight Assistance Mechanism (IFAM) continue to provide a lifeline to Australia's aviation industry in order to maintain a minimum level of connectivity and support.

While some of these programs have been extended into 2021, the industry is keenly awaiting a Government announcement on further support under the AAFRP, which provides a greater benefit to the industry as more planes are returned to the air. This is critical when the industry remains hamstrung by border closures every time new clusters emerge; brought into stark focus again recently, with the patchwork of responses to the South Australian outbreak.

Objective 1: ***Maintaining essential air connectivity***

The impact of the coronavirus disease (COVID-19) pandemic on global air transport is without precedent. The International Air Transport Association (IATA) has estimated that the COVID-19 crisis will see global airline passenger revenues drop by over US\$314 billion in 2020, a 55% decline compared to 2019.¹ Furthermore, analysis from IATA indicates that airlines in the Asia Pacific region will see the largest reduction in both passengers and revenue – with an estimated reduction in revenue of over US\$113 billion in 2020 compared to 2019.²

Australia's aviation sector was one of the first industries impacted by COVID-19, hardest hit, and will be among the last to recover. At the height of the pandemic, capital city air connectivity virtually disappeared, with some major intrastate routes experiencing passenger reductions of over 90%.³ As the Issues Paper identifies, the domestic airline industry shifted from being commercially-operated to a government-supported minimum network.

The necessary, yet unprecedented travel restrictions made by State, Territory, and Federal governments crippled Australian airlines' demand; leading to mass stand-downs of staff, job losses, drastic capacity cuts, and the grounding of almost all aircraft.

Air travel is critical to ensuring supply chains continue to operate via the carriage of freight (whether it be medical supplies or time-sensitive produce) and for the transport of essential workers. As we progress to a COVID-normal situation across the country, domestic air travel also allows communities to continue to access essential medical, financial, and educational services, travel for leisure, and to visit family and friends.

Maintaining connectivity through air travel in Australia is essential. Below, we respond to the questions posed in the Issues Paper and offer recommendations.



MAINTAINING ESSENTIAL AIR CONNECTIVITY

SUPPORTING A MINIMUM DOMESTIC NETWORK

A4ANZ and its member airlines welcomed the Federal Government's acknowledgement that Australia's airlines needed support to ensure that critical domestic routes remained operational.

Both the Domestic Aviation Network Support (DANS) program and the Regional Aviation Network Support (RANS) program have been critical in supporting Australia's airlines to operate a minimum air transport network - maintaining connectivity to Australia's cities and regions. By underwriting key routes, the Government is connecting essential workers across the country, enabling the movement of critical freight, and ensuring the continuation of domestic tourism for Australians.

To this end, A4ANZ and our member airlines have welcomed the Government's decision to extend both the DANS and RANS programs into January and March 2021, respectively. However, we would urge the Government to continue to be flexible, and open to the need to extend these programs further as necessary, until routes are commercially viable.

Recommendation: *The Government should continue to offer assistance under the DANS and RANS program as required, and be open to extending the programs past their end date to preserve connectivity on commercially-unviable routes, or in the event of further COVID-19 outbreaks and restrictions on travel.*

Issues paper question 1: What constitutes a minimum RPT network in Australia?

Those involved in the above programs have seen just how vast and significant the changes to routes, demand, and load factors from pre-COVID levels have been. Even since the Issues Paper was released just over a month ago, much has changed again.⁴

In seeking to define what constitutes a minimum RPT network in Australia, it will be essential for the Department to work directly *with* the industry, as has been done thus far. For certain routes, a higher frequency than twice weekly may be more important to allow for passengers to do a same day business trip, for example. Additionally, some regional tourism destinations with businesses at critical risk of closure may also need to be targeted for greater support.

How a minimum network looked pre-COVID is undoubtedly different to how it looks today, and flexibility will be required as these important elements are taken into account.

Issues paper question 2: Are there options to improve the effectiveness of government's support for maintaining a minimum RPT network?

A4ANZ members have welcomed the significant support the DANS and RANS programs have provided to the industry. These measures have been effective in allowing the reintroduction of routes that have previously fallen off schedules. Additionally, the taper mechanism build-ins are sensible and ensure that only routes that require help receive it. However, regardless of the scale of a minimum RPT network, it is imperative for the Government to continue to provide support to ensure that domestic connectivity is maintained while routes would be otherwise commercially unviable.

Any supporting measures (including DANS & RANS) must be scalable in the event that Australia experiences another COVID-19 outbreak, restrictions on travel and reductions in demand. The recent experience with South Australia shows just how important it is to have such scalability.

ADDRESSING BORDER INCONSISTENCIES

The relationship between the ongoing issue of inconsistency of domestic border restrictions and the effectiveness of the air network cannot be ignored, and the pressing need for national uniformity cannot be understated. Recent analysis by the Business Council of Australia suggests that the recovery of Australia's domestic aviation sector – operating at only 21% of 2019 capacity⁵ – is severely lagging behind other countries in our region. Countries such as Korea, Taiwan, and China are all operating at over 100% of their 2019 domestic capacity, and New Zealand is operating at almost 70%.⁶

While the fact that many States and Territories are revising or removing their border restrictions is positive news for the aviation industry, we would suggest that the Government consider options to future proof and facilitate travel across domestic borders in the event of a re-tightening of State and Territory border restrictions.

The Government's *Framework for National Reopening*⁷ provides useful guidance on the managed resumption of domestic and international travel; however, as noted, the *"steps rely on the effective implementation of health advice, local epidemiological data and individual outbreak management and are subject to State and Territory COVID-19 conditions."*

The adoption by all States and Territories of the National Cabinet's reopening framework⁸ and the parameters for identifying and acting on hotspots⁹, is essential and urgent. Resolving the current disparities should be a priority for Government as the current underwriter of the RPT network, in order to provide certainty, including for airlines planning and publishing schedules, for passengers and the broader tourism and hospitality sectors.

In a discussion intended to focus on ways in which government can provide effective support, it is important not to ignore or underestimate the practical and human aspects involved. The variability of domestic border restrictions and requirements has not only adversely impacted passenger movement – it has had a serious and sustained impact on resourcing at Australia's airlines.

A4ANZ members have had to stand down or make redundant more than 34,000 of their employees, in order to ensure their businesses are able to continue to operate now and into the future. Operationally, the border challenges have become extremely difficult to manage, with numerous examples of flight crew having difficulty crossing borders or being incorrectly quarantined, not to mention the significant efforts required for airline staff to obtain border passes/clearance to enter particular states and territories during their regular duties or for training purposes to meet safety and recency requirements.

The restrictions and lack of uniform exemptions for air crew has had a serious impact on their welfare and ability to work – with some pilots spending more than 4 months in self-isolation – and it also continues to have a significant impact on airline network operations and connectivity; with flights and routes being cancelled due to the availability of crew. With 116+ changes to border restrictions since the start of the pandemic, resolving this cannot wait for the state and territories to formally adopt the national reopening framework.

What is needed is a nationally consistent border protocol for flying; without it, the issues outlined above will only worsen, having a crippling impact on the domestic restart, and the proposed restart of international travel.

The Australian Health Protection Principal Committee (AHPPC) has previously recommended that *international* air crew should be exempt from mandatory quarantine, recognising:

- industry infection prevention requirements
- training the industry provide to their staff
- the vital role of these industries in Australia¹⁰.

Since July, the AHPPC has also endorsed two codes, supported by National Cabinet for freight/vehicle drivers¹¹ and agriculture workers¹²; designed to “deliver consistent approaches to facilitate the movement of workers across domestic borders where restrictions are in place.”¹³

A4ANZ and its members recognise the need to strike a balance between COVID risk mitigation strategies and allowing the free movement of Australians across borders, as reflected in the Framework for National Reopening. While global evidence continues to support that the risk of in-flight transmission is low¹⁴, we recognise that any movement of people across the community needs to be risk-managed to ensure the safety of both the aviation workforce and broader community.

The Australian aviation industry – in consultation with Government – has already developed and is operating to a *COVID-Safe Domestic Passenger Journey Protocol*.¹⁵ The protocol adopts a layered approach to risk reduction and utilises the Hierarchy of Controls framework applied by the AHPPC.

We urge the Government to now work with the aviation industry to implement a nationally-consistent protocol for domestic flying across State and Territory borders.

Recommendation: *Government should immediately begin working with the airlines on the development of an air crew movement protocol for domestic border controls.*



SUPPORTING INTERNATIONAL CONNECTIVITY

International aviation generates around \$100 billion in export revenue and supports around 515,000 jobs.¹⁶ Indeed, Australia's full economic recovery hinges not only on the resumption of domestic air travel – but also on the restoration of international air linkages.¹⁷

As international air travel restarts, the issues that are being experienced as a result of domestic border restrictions are likely to also have an impact, given the AHPPC advice referenced above still makes clear that crew may still be subject to state and territory-specific requirements that nullify the exemption from the mandatory 14-day quarantine requirements.¹⁸

This leaves the Australian aviation industry, and the community more broadly, facing the same uncertainty, issues with crew welfare, operational complexity, flight capacity and availability, as they are with domestic travel. Indeed, there are already examples emerging of this, with one of our member airlines having crew requests for exemption from isolation denied, despite having flown on a charter flight to a very low COVID-risk country, not getting off the aircraft, and travelling with a negative-tested group.

It is clear that this issue will become much more challenging as volumes increase, with large numbers of aircrew unable to work. Without a clear national approach, the impact on the aviation industry's restart will be severe.

There is no shortage of valuable information to inform the solutions. Indeed, globally, ICAO has released guidance for managing air travel through the COVID-19 public health crisis¹⁹, and IATA and ACI have jointly developed a position on the need for a globally-consistent approach to testing.²⁰

A4ANZ member airlines have been involved in testing trials locally but recognise that that borders are not the sole vulnerability. There are unique aspects of the Australian situation, including risk appetite and the fact that widespread international travel will be significantly constrained until an effective vaccine is deployed.

Work on the management of international passengers has been progressed by the Australia New Zealand Leadership Forum and the Halton Review into Hotel Quarantine²¹, and the recommendations which call on states and territories to consider a risk-based approach and more sustainable quarantine models are welcomed. The challenge will be to bring it all together. To that end, we are pleased to see Government agencies working with representatives of international airlines and airports through the National Passenger Facilitation Committee, to progress this issue.

Recommendation: *Government should immediately begin working with industry on the development of a National Protocol for Border Controls For COVID-Safe International Flying to facilitate the movement of air crew.*

Recommendation: *Government should work closely with industry to develop an evidence-based, nationally consistent framework to manage international travellers. This framework should be informed by recent reviews, evolving protocols for COVID-19 testing, and explore alternatives for quarantine.*

Issues paper question 3: What is the best way for the Government to scale back support as the aviation sector recovers at a different pace for different routes?

In the Issues Paper, the Department makes the important point that the eventual phasing out of direct assistance will need to be done in such a way that it *“minimises disruption to the sector as Australia recovers and the domestic aviation sector starts returning to commercial levels.”*

A4ANZ acknowledges that DANS/RANS have built-in taper mechanisms to scale back support as a route becomes commercially viable. However, before the Government fully unwinds support under this program, it may be appropriate for consideration to be given to the scale of an airline’s entire network, rather than solely looking at particular routes in isolation; as this would provide a more accurate indication of the recovery of the regional and domestic aviation sector in Australia.

The network-wide perspective is especially important when we consider the impact of future clusters or outbreaks and their effect on the whole aviation sector. Scaling up sustainable operations and standing up more staff will require further support to overcome the consequential cancellations across the network. In this context, continued support through the AAFRP is critical, and should be considered an important element of any approach to scaling back support through DANS/RANS.

The recent South Australian outbreak has demonstrated just how fragile the recovery path is in the aviation industry, given the sudden reintroduction of State and Territory hard border controls. Whilst domestic border re-openings are critical to standing the aviation industry back up, it is also at the mercy of the immediate reimposition of border restrictions, remaining vulnerable to these events until a vaccine is widely rolled out.

Therefore, as highlighted above, there will be a need for Government to work closely with the support recipients to plan this – with full understanding of the implications of withdrawal of support – and to execute it with flexibility to resume support as needed to reflect the frequently-changing conditions. The variability and the inability to accurately predict the pace of recovery of different routes will necessitate this.

Recommendation: *Government should work closely and directly with the aviation industry as it seeks to scale back support during the sector’s recovery, remaining flexible and open to the potential for scaling up again as required*



COVID-19 IMPACT AND RECOVERY

As highlighted earlier in this submission, airlines were the first industry to be devastated by COVID-19 and will likely be one of the last industries to recover. Globally, passenger revenue was down 48% on the previous year – with airlines’ net losses forecast to be over US\$84 billion in 2020, and a further \$15 billion in 2021.²²

In Australia, COVID-19 has caused passenger volumes to plummet by 89% this year²³, resulting in airlines foregoing more than \$25 billion in revenue.²⁴ This has led to job losses and furloughs across our aviation industry that exceeds 34,000 people – with Qantas and Virgin Australia alone forced to lay off more than 11,500 people.²⁵

It is widely acknowledged that the pace of the aviation industry’s recovery will be much slower than the downturn, due to the staggered reopening of international travel routes, the impacts of a broader economic downturn, and the collapse of both consumer and business confidence.^{26,27}

Objective 2: Preserving critical aviation capacity

In a global passenger survey conducted by IATA, the lowest level of passenger confidence was noted in Australasia, with 50% of customers advising that they may wait at least six months before travelling via air.²⁸

Australia’s entire aviation industry has been truly decimated by COVID-19. Preserving critical capacity has only been possible through Government intervention and support. Even *with* the support, however, Australia lost a low-cost carrier in Tiger Airways and Virgin Australia went into administration.

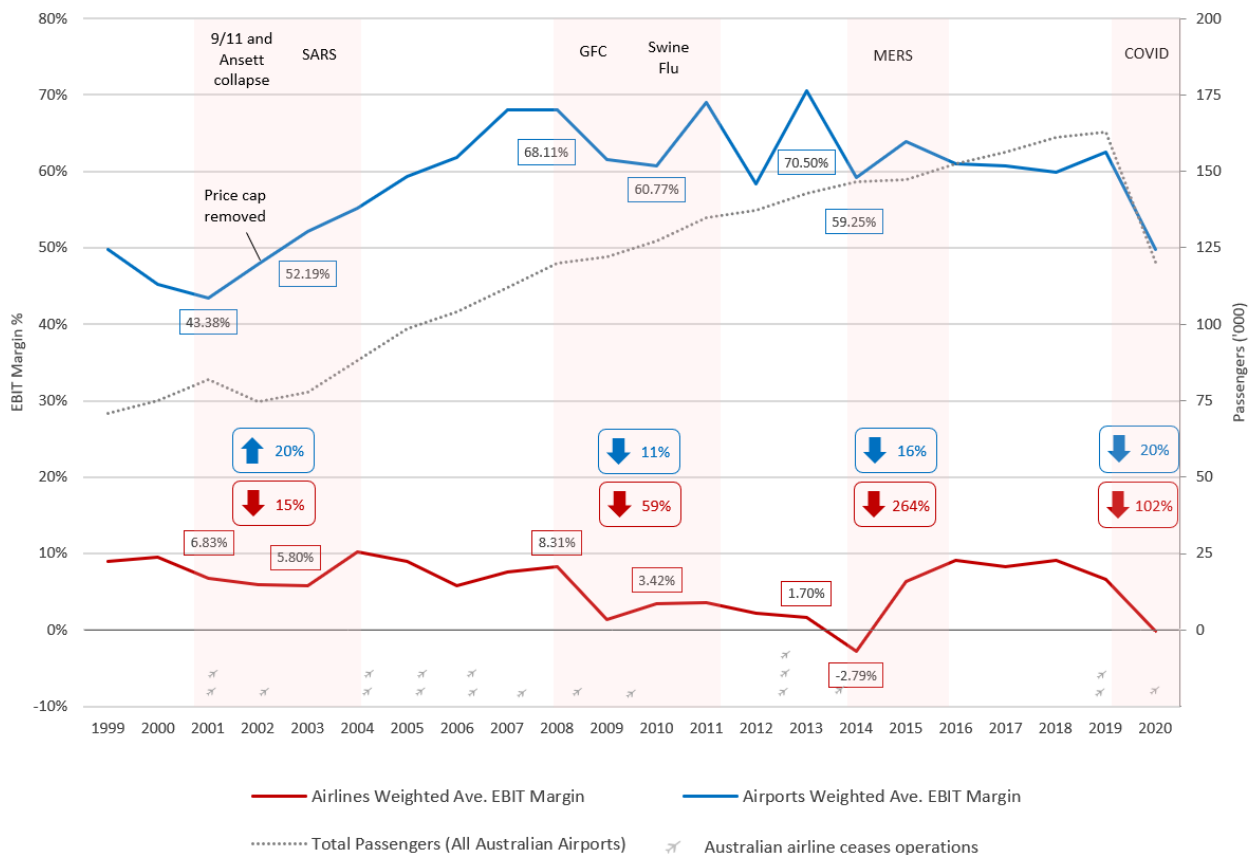
Whilst A4ANZ acknowledges that very few businesses have been immune from the effects of COVID-19 and airports have also been significantly affected, historic evidence indicates that not only is the financial impact of global events greater on airlines than on airports, but that their recovery is also slower, as they typically operate on thin margins - with far less buffer in terms of profitability. The previous global downturn associated with the Global Financial Crisis, for example, caused Australian airport profits to decrease by 11%, with a clear V-shaped recovery; while over the same period, the profits of Australia’s airlines decreased by 59% and recovered much more slowly.²⁹

The chart on the following page illustrates this clearly; and the differences were reflected in comments made in a recent speech by ACCC Chairman Rod Sims, asking, “*Why earn the profits possible from a competitive industry when much higher profits are available from leveraging market power?*”³⁰ It is an unfortunate feature of the Australian context that airports’ recovery has often come at the expense of airlines, which do operate in a competitive market (Figure 1).

THE IMPACT OF GLOBAL EVENTS ON AUSTRALIAN AIRLINE AND AIRPORT PROFITABILITY

The past twenty years paint a bleak picture for the survival of airlines during and following financial crises (see Figure 1, below). Without further support, Australia's airlines, large and small, will struggle to shoulder the costs associated with restarting their network operations.

Fig. 1: The impact of global events on airline and airport profitability



Airports Weighted Average based on proportion of revenue earned each year by Sydney, Melbourne, Brisbane and Perth Airports.
Airlines Weighted Average based on proportion of revenue earned each year by Qantas, Virgin and Regional Express.

Issues paper question 4: What critical components of the aviation sector need support during the COVID-19 crisis?

It is important to acknowledge that aviation is very different from other sectors in the economy. Not only in the scale of the impact of COVID-19, but the ability to restart quickly. Planes have been grounded at airports all around the world. They are not all just ready to have their engines turned back on. Airline employees, who undergo rigorous training, re-training and re-certification cannot just be brought back in instantly, from being stood down. Whilst airlines are responding flexibly and positively to border re-openings, it is challenging to relaunch services with minimal notice. Standing up aircraft, rostering crew and selling tickets to make flights commercially viable takes time.

The aviation sector's recovery will look different to other sectors and it will need a different response from government. Much of the support that has been put in place thus far reflects how our aviation ecosystem works – it starts with having planes in the sky to move people around, and the benefits then flow to all parts of the

system and the wider economy. A4ANZ and our members have appreciated the Federal Government's strong support to get planes flying again through the DANS, RANS, and Regional Airlines Funding Assistance (RAFA) programs.

Moving forward through the sector's recovery from COVID-19 however, the Australian Airline Financial Relief Program (AAFRP) will be of critical importance for airlines as volumes increase, just as it was anticipated at the start. The \$715 million that the Government has already allocated through this measure has been most welcome. The relief provided by the AAFRP provides assistance to the whole industry from Airservices Australia and CASA, through to the airports and security providers and fuel companies. This ultimately allows ticket prices to stabilise at a time when airlines are trying to restart an industry and stimulate demand. If ongoing support cannot be provided through the AAFRP, either airlines will need to absorb this cost at a time when they have no ability to do so, or ticket prices will need to be raised, to offset the significant increase in costs the industry now faces due to the rapid fall in demand in 2020. The industry has a number of fixed costs that remain when flying activity stops, and these expenses ultimately need to be paid by the airlines.

Governments in developed countries around the world have offered major support packages to airlines to support them through COVID-19. Recent analysis estimates that the Federal Government's financial support for the aviation industry (including JobKeeper) represents <0.1% of Australia's GDP, compared to an international average of 0.24% of GDP.³¹

Issues paper question 5: Are there options to improve governments' support for critical aviation connectivity and capacity during COVID-19?

FEE WAIVERS/REBATES

The AAFRP has been crucial in preserving critical capacity across the domestic and regional aviation sector. In order to ensure that Australia's airlines are able to fully restart their networks and continue to operate through the COVID-19 recovery period, the AAFRP will need to be extended until at least June 2021, if not later.

In the recovery period, it will be critical that airlines keep costs as low as possible – this will be difficult with low passenger yields, high fixed costs, and higher unit costs. As such, we urge the Federal Government to continue to fund the AAFRP until at least June 2021 in order to provide:

- A rebate of aviation fuel excise and domestic aviation security charges;
- A waiver of Airservices Australia charges on domestic airline operators; and
- Funding for CASA to maintain its essential services.

The patchwork of responses across different jurisdictions following the recent South Australian cluster exposes just how fragile the recovery path is for the aviation sector. The continuation of WA's hard border, along with the sudden reintroduction of domestic border controls in response to outbreaks does not allow Australians to move forward with confidence; to plan and book travel for business, to see family, or take a holiday. Whilst domestic border re-openings are critical to standing the aviation industry back up, the sector remains at the mercy of the immediate reimposition of border restrictions, and will continue to be vulnerable to these events until a vaccine is widely rolled out.

In this context, continued support through the Australian Airline Financial Relief Package (AAFRP) is critical, and we recommend the extension of this program until 30 June 2021. The design of the AAFRP means it will play an essential role in keeping costs as low as possible as volumes increase in recovery, and as other supports are wound back.

By getting more planes in the air, the benefits of the AAFRP flow on to airports and tourism businesses, while directly supporting other parts of the sector, including Airservices Australia and CASA.

The industry would be significantly assisted in recovery planning and preservation of capacity if some certainty were able to be provided on the extension of the AAFRP.

Recommendation: *The Government should extend the AAFRP until at least 30 June 2021.*

Consideration should also be given to extending the scope of the program to allow for fee waivers and rebates to provide support for Australia's international aviation sector. As the airports attempt to recover losses from the COVID impact on international travel, massive pressure will be put on airlines to absorb security charges that could make up as much as 50% of a normal ticket price (e.g. to New Zealand); impacting fares and demand.

While the immediate focus and priority needs to be on our struggling domestic and regional aviation sectors, as our international borders reopen, international aviation will also need support.

Recommendation: *The Government should work with industry on a plan to expand the scope of the AAFRP to support the resumption of international travel in 2021.*



AVIATION SECURITY

The current economic landscape for the whole aviation sector is bleak. Once financial support through COVID-related programs is withdrawn, Australia's domestic airlines and airports will be left with increased security screening costs as a result of the Government's mandated enhanced security measures³²; particularly on regional routes. This will come at a crucial time when the industry needs costs to be as low as possible, to facilitate the return to commercially-viable flying, placing significant pressure on airfare pricing.

Historical evidence and behaviours indicate that airports will pass the cost of these operating expenses through to airlines in full or, in some cases, with the addition of a commercial return, and often without meaningful consultation or documentation. The fact that the majority of Australia's airports operate as unconstrained monopolies has unfortunately made such practices not only possible, but common.

On regional routes where services are already marginal due to the poor economies of scale, there is no ability for airlines to pass on such costs to passengers. Any increase in charges will directly impact the bottom line of airlines – who are already in precarious financial positions due to the impact of COVID-19 – in turn affecting the viability of essential air services. Given the impacts of the pandemic, economy of scale issues are being experienced at Tier 1 and designated Airports.

As we move to the recovery phase, it will be even more important to ensure that critical air services to regional communities are not adversely impacted by the increased costs associated with the mandated security measures.

We recognise that the Regional Airports Screening Infrastructure (RASI) program has been extended until 30 June 2021 – however, we would also urge the Government to consider extending this program in scope, to provide additional support for capital expenditure associated with the implementation of Government-mandated security upgrades at Tier 1 and Designated Airports. Consistent with our feedback to Government on the *Sustainable Security Screening at Regional Airports* Discussion Paper, such funding should only be provided under the condition that the airport commits to:

- demonstrating to Government that their plans for upgrades and other capital works are commensurate with expected passenger demand, and fit for purpose;
- consulting with airlines on all capital and operational changes which impact costs and charges;
- ensuring that they do not seek to recover from airlines the capital expenditure costs of the security upgrades; and
- ensuring that commercial margins are not added to the costs associated with security screening measures mandated – but not funded – by Government.

Regional aviation does not exist in a vacuum; critical connectivity in regional Australia involves – and relies heavily upon – air traffic to and from major airports. A4ANZ believes that both the policy *and* funding frameworks should reflect this.

Recommendation: *The Government should consider extending the scope of the Regional Airports Screening Infrastructure program to cover the capital expenditure costs associated with the implementation of Government-mandated security upgrades at Tier 1 and Designated Airports.*

Recommendation: *Funding for airports for mandatory security upgrades should be subject to conditions that ensure transparency and accountability.*

Issues paper question 6: What is the best way for governments to scale back connectivity and capacity support to allow commercial airline operations to resume as the regional and domestic economies recover?

Bringing clarity and greater certainty to the domestic restart, through the resolution of border inconsistencies and the financial support – as outlined above – will ensure that Australians are able to access affordable air travel, in turn stimulating the economy through essential and leisure travel and tourism.

The dynamic nature of the pandemic, and Australia's recovery, requires that the Federal Government continue to monitor the activity and capacity of Australia's aviation sector, and consult with stakeholders to determine when and how Government support can be scaled back.

In the event of COVID-19 outbreaks that impact the capacity of Australia's airlines – such as we have experienced with responses to Victoria's second wave and clusters in Sydney and Adelaide – it will be critical for the

Government to be able to again scale up support for the sector. A4ANZ therefore encourages the Government to ensure that funds are able to be appropriated for aviation support programs as required.

The patchwork of responses across different jurisdictions following the recent South Australian cluster exposes just how fragile the recovery path is for the aviation sector. The continuation of WA's hard border, along with the sudden reintroduction of domestic border controls in response to outbreaks does not allow Australians to move forward with confidence; to plan and book travel for business, to see family, or take a holiday. Whilst domestic border re-openings are critical to standing the aviation industry back up, our sector remains at the mercy of the immediate reimposition of border restrictions, and will continue to be vulnerable to these events until a vaccine is widely rolled out.

We note that DANS/RANS already has built in mechanisms that will scale back funding if a route becomes commercially viable or activates certain triggers. We consider this an appropriate mechanism but reiterate our call for the continuation of the AAFRP, in order to support the industry through a long road to recovery.

Recommendation: *Government should work closely and directly with the aviation industry as it seeks to scale back support during the country's economic recovery, taking into account the vulnerabilities caused by the lack of national consistency on domestic borders.*

Issues paper question 7: How has the COVID-19 crisis and the downturn in passenger movements affected essential aviation-related businesses?

Given Australia's geography and distances between major cities, it is no surprise that we rely on an extensive domestic air network; with airlines providing a critical link to Australia's many regional and remote communities. Aviation supports our regions through tourism, small business, access to medical care and critical freight including food and medicines. Aviation's economic contribution to rural and regional communities has been estimated to be approximately \$2.3 billion annually, with support for 15,000 jobs.³³ Prior to the virtual shutdown of aviation earlier this year, Australia's domestic airline industry carried more than 65 million passengers; more than 2.5 flights per person each year.³⁴ The Melbourne — Sydney route was the second busiest route globally by flight frequency, flights that support jobs, tourism, business linkages, and connection with family and friends. During the peak of the pandemic in Australia, passenger numbers on this route plummeted by 93% - accounting for an economic loss of over \$3.1 billion.³⁵

Globally, the entire air transport sector supports 87.7 million jobs – however, as a result of the COVID-19 pandemic, it is estimated that the aviation-supported jobs will potentially fall by 46 million to 41.7 million.³⁶ Australia has not been immune from this trend, as we have noted earlier in this submission.

Issues paper question 8: Are there options that industry and governments could consider to ensure these services are available to support the recovery of the aviation sector?

JobKeeper and other support programs, including DANS, RANS, IFAM and AAFRP have been necessary to keep planes in the air, generating jobs on the ground for many parts of the aviation ecosystem. By providing funding or waivers to airlines to get more planes flying again, the benefits of these programs flow on to airports and tourism businesses, while directly supporting other parts of the sector. For regional Australians and small businesses, supporting a minimum network of flights has allowed for critical connections to be maintained across the country.

It is important to acknowledge that COVID-19 has caused serious damage to the industry that will have an impact well into the medium and longer term. All aviation-related businesses have an imperative to 'right-size' their operations, in light of clearly diminished flying activity, which is unlikely to return to pre-COVID levels until at least 2024.

COVID-19 SUPPORT

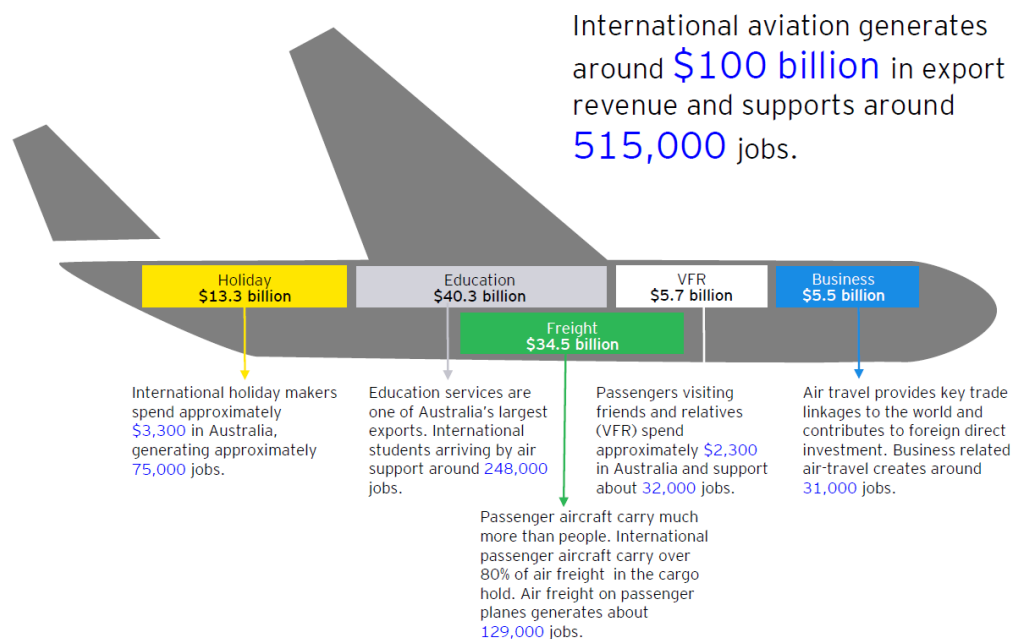
While it is well recognised that the COVID-19 pandemic and resulting international border closures devastated international passenger flying, the air freight sector was similarly impacted – with international passenger aircraft carrying over 80% of air freight in the cargo hold.³⁷


Air freight is an important, if often overlooked, component of Australia's freight and logistics sector.

Although air freight makes up less than one percent of Australia's overall freight by volume, it represents a significant percentage of Australia's international trade movements, when considered in value terms – with one in every five dollars of Australia's goods trade travelling via airfreight.³⁸ This is because air freight is predominantly used to transport high-value, time-critical goods – including; pharmaceuticals, and highly-perishable goods such as seafood.³⁹

Objective 3: Maintaining supply lines for air freight

A recent analysis by the Business Council of Australia and Ernst & Young estimated that international air freight on passenger planes generated \$34.5 billion in export value, and supported 129,000 jobs (image below reproduced with permission).⁴⁰





Issues paper question 9: Are there options to improve the governments' support for maintaining international air freight capacity during COVID-19?

The Federal Government's International Freight Assistance Mechanism (IFAM) has been welcomed by the aviation industry, and it remains a critical link to international supply chains for essentials such as medical imports, and agricultural exports. Indeed, agricultural exports are among the high-value exports constrained due to COVID-19 international travel restrictions – with the value of beef, sheep, and lobster exports all dropping significantly in 2020 compared to 2019.⁴¹

A4ANZ welcomes the Government's commitment to extend IFAM until the middle of June 2021. However, in order to ensure that international freight capacity is maintained, it is likely that IFAM will need to be extended for as long as international travel restrictions are in place, which at this stage may be a considerably longer period.

Issues paper question 10: What is the best way for governments to scale back international air freight support to allow commercial air freight operations to resume as the regional, domestic and international economies recover?

Given the ever-changing experience of other countries with COVID-19 outbreaks, and continuing international travel restrictions, we would encourage the Government to maintain IFAM funding on a scalable basis, to enable baseline access to freight services are maintained for Australian businesses.

As we have recommended previously, we also encourage working closely and directly with industry to ensure full awareness of and to minimise any negative impacts of scaling back support.

Recommendation: *The Government should remain open to extending the International Freight Assistance Mechanism past June 2021, as the industry will likely continue to require support as a result of international travel restrictions.*



PART B: THE FUTURE OF AVIATION / FIVE-YEAR PLAN

The commentary from the Department in the Issues Paper that a refreshed policy agenda is needed for aviation beyond COVID-19 is welcomed, and we offer recommendations in support of this in the following sections. Where the consultation questions relate to areas that are outside of A4ANZ's remit, such as general aviation, airspace policy, and safety, we have not included a response.

DEMAND MANAGEMENT AT SYDNEY AIRPORT

In recognition of the fact that there is a parallel consultation process on demand management at Sydney Airport⁴² to which A4ANZ will provide a response – and no specific questions posed in the Issues Paper – we have offered only brief comments on this issue below.

Concerningly, recent media articles have reported claims from Sydney Airport that Australia's domestic airlines are "hoarding" slots.⁴³ This is without basis, given the airport has been near empty, with demand such that no airline – new entrant or otherwise – is seeking capacity. Furthermore, slot waivers have been granted globally during COVID for the purpose of preventing uneconomic flying simply to protect slots – with the Deputy Prime Minister extending the slot waiver for Sydney Airport until 27 March 2021.

We also note with concern recent moves by Sydney Airport to make significant changes outside of, and well ahead of any recommendations to come from what is described in the Issues Paper as "*comprehensive review of the legislation governing Sydney Airport's demand management including slot management.*" What we understand has been proposed by Sydney Airport – a separation of runway and gate slot coordination – would create issues of both a financial and operational nature. It would create a situation where Sydney was one of only a very small number of airports in the world – and certainly the only one in the region – to separately control its own gate slots. The risks and negative consequences of this must be considered carefully in the upcoming review.

AIRLINE ACCESS TO DOMESTIC ROUTES

Issues paper question 14: Are there ways to further liberalise air access arrangements while maintaining Australia's high regulatory standards?

Over the last few years, numerous Government inquiries have considered – and rejected – the concept of allowing foreign airlines to operate domestic routes – or Cabotage – as a potential means for increasing competition and improving pricing on regional routes in Australia.

Reducing
regulatory
burden

There is no sound business case for making changes to the current cabotage restrictions and no international precedent for doing so.

It is therefore concerning to see a proposal to permit cabotage re-emerging in this Issues Paper, particularly under the heading of reducing regulatory burden, given the Department rejected the concept it in its response to the 2017 *Inquiry into the effect of restrictions and prohibitions on business (red tape) on the economy and community*.⁴⁴

As the Issues Paper acknowledges, Australia has one of the most open and competitive aviation markets – with Australia’s domestic market being one of the most liberalised in the world. And while the market looks a bit different in 2020, the basis for the Department’s position very much still holds; that is, *“replacing a service that an Australian airline operates on a marginal basis with a service that a foreign airline can operate more profitably is unlikely to increase competition, lower fares or benefit consumers.”*

Additionally, Productivity Commission research has shown that allowing international entrants to operate domestic routes would be unlikely to lead to efficiency gains,⁴⁵ and international research indicates that there is little evidence to suggest that further liberalising air transport or removing cabotage restrictions leads to growth in tourism.⁴⁶

Removing cabotage restrictions would put Australia at odds with most of the developed world in terms of domestic aviation policy. Almost no countries have traded aviation cabotage rights extensively and major aviation nations such as Canada, China and the United States do not permit aviation cabotage.⁴⁷

Its introduction – even partially – would have widespread and devastating impact on Australia’s aviation sector, with negative effects on investment, employment, and safety standards.⁴⁸ As the Department itself said in 2017, *“Successive Australian governments have taken the view that it is important for airlines carrying domestic passengers to be subject to Australia’s full regulatory oversight. The direct oversight by Australian safety regulators of domestic flights is a key driver behind Australia’s excellent safety record. The current policy of generally reserving the Australia domestic market for Australian-based airlines ensures domestic airlines all operate on the same level playing field in relation to industrial relations and taxation, as well as the safety and security oversight of the Australian government.”*⁴⁹

Given the Government’s ongoing administration of both the DANS and RANS programs, the Department would no doubt now have a deeper appreciation for the thin margins associated with domestic flying – particularly on regional routes. The removal of cabotage restrictions could completely undermine Australia’s airlines – who already have a long road to recovery from the devastating impact of COVID-19.

Recommendation: *Current cabotage restrictions should remain in place, to ensure a safe and sustainable Australian aviation industry.*



SAFE, SECURE AND SUSTAINABLE AVIATION

This section of A4ANZ's response to the issues paper focuses on aviation security and environmentally sustainable aviation.

SECURE AVIATION

A4ANZ appreciates that the Issues Paper is not seeking commentary on specific aviation security regulations but is rather seeking feedback on the Government's approach to aviation security policy. We recognise that Australia's aviation security environment is constantly evolving, and as such requires the continual development and refinement of proportionate, practical, and timely security measures.

Issues paper question 17: Are there approaches that governments could pursue to improve aviation security and governance processes?

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.

However, A4ANZ believes that there are opportunities for improvement in aviation security governance, industry consultation processes, and industry support.

We acknowledge that historically, both the Department of Home Affairs, and the Department of Infrastructure, Transport, Regional Development, and Communications (DITRDC) 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.

The aviation industry's viability has come into sharper focus since its virtual collapse during the COVID-19 pandemic – particularly the issue of security charging practices, and the costs associated with the Government's enhanced security screening measures.

In A4ANZ's 2020-21 Federal Pre-Budget Submission⁵⁰, recommendations were made in the context of the Government's existing policy agenda on security; and with a view to facilitating sound, sustainable policy implementation, to ensure that airlines – and by extension, passengers – would not disproportionately bear the costs associated with the Government's proposed changes. This objective is now even more important, if we are to assist in the country's economic recovery from COVID-19, and sustain the essential services on which Australians rely.

As we have noted previously in this submission, A4ANZ has welcomed both the AAFRP and RASI programs, and acknowledge the critical support that these programs have 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 funding support for

domestic security charges, and with developing a framework for accountability and transparency in security charging practices across the aviation industry.

A4ANZ recognises that this discussion paper is not seeking comment on specific security policies – however, we do believe that any mechanism which is being used to support aviation security screening operational costs will need to be limited to only those costs directly related to providing security screening.

In order to ensure that Government funding is only used for costs directly related to the provision of security screening, the Department, in consultation with industry should develop and implement a formal set of pricing principles for aviation security. A key starting point for the development of the principles would be those being applied in the domestic security charge rebate under the AAFRP, and the associated examples of “reasonable” costs.

Pending a formal evaluation of the AAFRP’s security rebate program, anecdotal reports point to the need for more than just a definition of scope as guidance, as there are still disputes occurring, particularly where there is insufficient information provided to clearly justify invoiced charges or where there is a difference of opinion as to what constitutes a reasonable security charge. There is currently no mechanism for resolving these disputes.

Learning from these contemporary insights and working with industry parties, A4ANZ urges the Government to agree principles, which ideally would 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.

There is both historical and international guidance that could be useful to inform the process of developing principles, and we encourage the Government to consider both the International Civil Aviation Organization (ICAO)’s policies on security charges⁵¹ (see **Box 1**) and the ACCC’s guidance on security charges that was put in place when airports were first privatised.⁵²

A4ANZ strongly believes that the agreed principles should then be enshrined in any program which provides funding for aviation security charges, to improve transparency and accountability.

Further to these principles and associated examples, A4ANZ strongly urges the Government to work with industry to determine what security-related costs can be passed on to airlines, and to develop safeguards to expressly prohibit airports from adding commercial margins to any costs incurred by airports in implementing aviation security measures that not covered by Government funding.

This is especially critical, given recent economic shocks and an uncertain economic period ahead. The fact that the ACCC’s proposed reforms to the economic regulation of airports – changes which would have improved transparency on costs, encouraged greater collaboration, and facilitated efficient investment – were not adopted by Government in 2019, leaves the sector exposed to further financial harms without careful controls in place.

Even in the absence of Government funding – it is essential for the Government to work with industry to determine what security-related costs can be passed through from airports to airlines and ultimately, passengers.

Recommendation: *The Government, in consultation with industry, should:*

- *develop and implement a set of pricing principles for aviation security;*
- *determine what security-related costs can be passed on to airlines; and*
- *develop safeguards to expressly prohibit airports from adding commercial margins to charge airlines for costs incurred by airports in implementing aviation security measures*

One of the challenges for external stakeholders working with Government on aviation security is the governance arrangements; policy is largely developed by the Department of Home Affairs, with the responsibility for implementation in many cases resting with the Department of Infrastructure, Transport, Regional Development, and Communications. A4ANZ would encourage the Government to consider a better mechanism for cross-portfolio governance, to ensure that aviation security is both informed by evidence and implemented in the most cost-effective and practical manner. Ideally, airlines and airports would be part of this process.

Recommendation: *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 can be addressed early in the process*

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 [emphasis added by A4ANZ]:

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.



ENVIRONMENTALLY SUSTAINABLE AVIATION

Despite the current crisis facing the global aviation industry, Australian airlines' commitment to pursuing sustainability remains strong, particularly as the sector starts to recover.

Issues paper question 18: Are there options to improve environmental outcomes while maintaining an efficient and effective aviation sector?

Globally, leaders across the aviation sector have highlighted the opportunity for the sector to be supported by a green recovery – with a focus on investments in carbon offsetting, efficient technologies, and sustainable aviation fuels.⁵³

A4ANZ recognises that the Government is implementing the Action Plan; *Managing the Carbon Footprint of Australian Aviation*⁵⁴. There is an argument to be made, however, that the need for a sustainable recovery for the aviation sector, and the Government's concurrent development of the *Technology Investment Roadmap*⁵⁵, provide an opportunity to develop a contemporary plan for an environmentally sustainable future for Australia's aviation industry.

In 2009, the aviation industry set three global goals to address its climate impact:

- An annual average fuel efficiency improvement of 1.5% from 2009 to 2020;
- Stabilise net CO₂ emissions at 2019 levels with carbon-neutral growth²; and
- Reduce aviation's net CO₂ emissions to half of what they were in 2005, by 2050.⁵⁶

The industry was on track to meet the short-term fuel efficiency goal before COVID hit⁵⁷ and remains committed to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which will enable the industry to meet the mid-term goal of carbon-neutral growth, by complementing technology, operational and infrastructure measures.

All of A4ANZ's member airlines have taken action to decrease their carbon emissions, through mechanisms including, but not limited to; investing in new fleet technology, piloting sustainable fuel programs, operating significant carbon offsetting programs, and making operational improvements and efficiencies.

However, the industry has recognised that achieving the long-term goal of reducing net carbon emissions requires continued investment in new technologies and strong support for the deployment of sustainable aviation fuels. It is well recognised that sustainable aviation fuels produce up to 80% less carbon emissions over its lifecycle, compared to conventional jet fuel.⁵⁸

A4ANZ has previously argued for revision of the Emissions Reduction Fund (ERF) to increase participation by the transport sector through the inclusion of alternative fuels projects, and for broader Government investment in sustainable aviation fuels.

Earlier this year, the report from the *Expert Panel examining additional sources of low-cost abatement* (colloquially known as The King Review)⁵⁹ recommended that the Government:

- Establish a goal-oriented technology co-investment program to accelerate the uptake of transformative, high abatement potential technologies that are not currently cost competitive; and

² As a result of the COVID-19 pandemic and its impact on air traffic, ICAO resolved that 2019 emission data would be used for the CORSIA baseline, instead of 2020 emissions. See more at: <https://www.icao.int/Newsroom/Pages/ICAO-Council-agrees-to-the-safeguard-adjustment-for-CORSIA-in-light-of-COVID19-pandemic.aspx>

- Provide ARENA and the CEFC with an expanded, technology-neutral remit so they can support key technologies across all sectors and be involved in the delivery of the Goal-oriented co-investment program.⁶⁰

Similarly, the Climate Change Authority's recent report *Economic Recovery, Resilience and Prosperity after the Coronavirus* noted the potential benefits of sustainable aviation fuel for both the environment and the broader economy.⁶¹

The joint report by the CEFC and ARENA noted that an Australian sustainable fuel market that produced 20 giga litres per year could provide long-term employment for up to 250,000 people – mostly in regional areas.⁶²

Australia, particularly its regional areas, has an abundant, yet underutilised supply of the major feedstocks for sustainable fuels; crop and forestry residues, processing residues and waste. However, while the potential benefits are great – cost is currently the biggest barrier to the production of sustainable aviation fuel in Australia.

In 2013, the Qantas Group, Shell and ARENA undertook a feasibility study which found that an aviation biofuel industry is technically viable in Australia, however, investment in feedstock and infrastructure as well as a supportive policy environment was essential to its development.⁶³

In mid-November 2020, organisations collectively representing the entirety of the European aviation sector released a report detailing the strategy and actions needed to ensure the recovery of the EU aviation sector.⁶⁴ A key pillar of the strategy was the development of an EU Pact for Sustainable Aviation.⁶⁵ The report proposes that the recovery of the aviation industry will be helped, and should be accompanied by, efforts to make aviation more environmentally sustainable, and notes that to facilitate this there is an urgent need for a comprehensive policy framework to promote the uptake and deployment of sustainable aviation fuel.⁶⁶

One of the ways in which investment in SAF production could be encouraged is through applying a multiplier. Presently, aviation fuels receive the same policy incentives as those provided to road fuels. Unless aviation fuels are prioritised in policy frameworks, producers are highly likely to continue to focus on road transport, given road fuels are a lower quality and require less processing to produce. Applying a multiplier of at least 1.2x for developmental sustainable aviation fuels would provide a signal to fuel producers to invest in aviation fuel production instead of using the same feedstock to produce road fuels, which currently provide more return for investors.

With the right level of support from Government and the energy sector, through adequate funding, investment and a supportive policy framework, there is potential to provide regional Australia with a significant boost in jobs and opportunities – something which is sorely needed for recovery from impacts of the COVID-19 pandemic – through the development and production of locally-produced sustainable aviation fuel.

Recommendation: *The Government should act on the recommendations from the King Review⁶⁷ – particularly with regard to establishing a goal-oriented technology co-investment program to accelerate the uptake of transformative, high abatement potential technologies such as sustainable aviation fuel.*

Recommendation: *The Government should work with aviation and energy industries to develop a comprehensive policy framework to facilitate and incentivise the production, uptake, and deployment of sustainable aviation fuel.*

Recommendation: *The Government should also expand the remit of the ERF to include alternative fuels projects to increase participation by the transport sector.*

While the production and utilisation of sustainable aviation fuel benefits both the environment and the economy, it also has a positive impact on fuel security. The COVID-19 pandemic has highlighted the potential vulnerabilities in our fuel supply chain and safeguarding against global shocks and events. Australia currently imports over 90% of its commercial jet fuel and has long had to manage issues relating to jet fuel supply and availability.⁶⁸

In terms of aviation fuel, Australia's domestic production of aviation fuel has almost halved over the last 10 years, and we hold approximately 23 days of jet fuel, putting us behind most OECD countries.⁶⁹ In fact, Australia lags so far behind other nations in fuel independence and security that it has been named as the least prepared developed nation to deal with a crisis or a major global event.⁷⁰

Both aviation sector stakeholders and the broader bio-energy sector are urging the Australian Government to consider investing in the domestic development of sustainable aviation fuels – to reduce reliance on foreign imports and enhance Australia's self-sufficiency. Domestic production of biofuels results in less reliance on imported oil and petroleum products thereby promoting energy security. A strong biofuel industry can help diversify the sources of transportation fuels and decrease Australia's dependence on petroleum imports, which will reduce the risk of supply constraints during times of international or regional geopolitical upheaval.⁷¹

The aviation industry remains committed to pursuing and meeting the industry's three sustainability goals – and continues to work through the pandemic to achieve this. *Waypoint 2050* is a global sustainable aviation project being led by the Air Transport Action Group – the recently released project report provides a useful framework, outlining how industry and governments can work together to use technology, operations, infrastructure and sustainable aviation fuels to meet the aviation industry long-term emissions goal by 2050.⁷²

Recommendation: *The Government should review the [Waypoint 2050 report](#) and consult with industry on the way forward to develop an inclusive and effective climate action plan for the Australian aviation industry.*



REDUCING REGULATORY BURDEN & GREATER LOCAL DECISION MAKING – FEDERALLY-LEASED AIRPORTS

Issues paper question 19: Are there options to improve the regulation of Federally leased airports, that balance the benefits of local level regulation and management with strategic national level interests?

While the Issues Paper opines that *“it is important that the Government’s regulations do not impose an undue burden on private airport operators”*, it fails to note that the economic regulation of Australian airports, despite their status as privatised monopolies, is widely regarded as one of the most light-handed models in the world. By contrast, airlines – which operate in a competitive environment – are now subject to quarterly monitoring by the ACCC.⁷³

In fact, the Issues Paper’s silence on the economic regulation of airports is puzzling. It is a fundamental part of how the aviation ecosystem operates and yet the paper makes no mention of the ACCC’s annual monitoring⁷⁴, the cycle of Productivity Commission inquiries⁷⁵, nor any of the issues raised by airport users to do with the regulatory system. The Issues Paper makes no mention of the work program that arose from the 2019 PC Inquiry, which included a review of the *Airports Regulations* Part 7, an update to Schedule 2,⁷⁶ and the review and update of the ACCC’s monitoring parameters, including Quality of Service indicators.⁷⁷ These seem significant omissions in a paper focused on the sector’s future, as they must surely form part of the five-year plan.

Since COVID-19 delivered aviation its biggest ever economic shock, industry participants have worked collaboratively on many aspects of managing the crisis, not only with each other – through the Australian Aviation Recovery Coalition⁷⁸ – but with Governments. Despite this, disputes have already emerged between airports and airlines over rent relief, security and other charges; and with all parties seeking to reduce costs and recoup losses, further disputes are almost certain to occur during recovery phase and beyond. The dispute between Perth airport and Qantas over charges has still not been heard by a judge after 2 years, and, with other disputes also in play, it is clear that the Government should no longer accept the concept of legal battles via a court as the preferred method of dispute resolution.

If the Government is – as stated in the Issues Paper – seeking to remove red tape, reduce cost, create a stable environment, and ensure that regulation is fit-for-purpose, the five-year plan can’t afford to simply ignore the need for reforms that will deliver those benefits. It needs to be considered in this process, because the next review of the economic regulation of airports is not due until 2024, with the AAA having previously sought this to be pushed out further.



A COMPETITIVE AND EFFICIENT AVIATION SECTOR

Under this heading, the Issues Paper documents the Government's commitment to *"adopt aviation policies that create incentives for businesses to innovate, lower costs and provide better quality services."* Here, we see a challenge ahead; because the current economic regulatory settings for airports are completely at odds with this objective.

It is an inescapable fact that, for a business that is an unregulated monopoly infrastructure asset, like most Australian airports, there are no incentives to lower costs or improve quality. As ACCC Chairman Rod Sims said in a recent speech, it is a mistake to assume that customer interests will always come first. The use of market power by monopoly asset owners, he said, *"... is not some form of aberration. They are simply acting commercially and predictably to maximise profits as their shareholders demand of them."* He went on to say that dealing with negative consequences of market power is particularly crucial at this time as Australia attempts to confront the economic challenges of the COVID-19 pandemic.⁷⁹

In its response to the Productivity Commission Inquiry, the Government expressed a strong desire to see strengthened commercial relationships between airports and airlines, to get the regulatory balance right, and encourage the necessary infrastructure investment and the best possible consumer outcomes. These goals are shared by and have arguably never been more important to all aviation industry participants, as they face a challenging recovery. A shared policy goal, however, is not enough to change the practices of two decades, to prevent nor 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 (above) than ever.

If all the submissions, case studies, expert testimony, global comparisons, economic analysis, and recommendations from the ACCC – based on 20 years of monitoring monopoly airports – wasn't enough to convince the Government to progress any reforms pre-COVID, perhaps the first-hand experience, having worked closely with the sector throughout the pandemic, will provide a new perspective. Through the design and implementation of the COVID-relief programs, many in Government have now become acutely aware of just how thin or non-existent airline margins are on a large number of routes.

Before COVID-19, Government officials had heard countless stories of airports withholding information, seeking to charge airlines at rates and in ways that didn't fit the definition of "reasonable". Now, they've experienced it for themselves; in detail, through the processes of establishing and administering the aviation relief programs.

Airlines had already warned that the 2019 decision by the government to retain existing settings for monopoly airports, was putting the sustainability of affordable airfares in Australia at risk, as airport charges continued to escalate and more disputes were headed to court. Now, in the vastly changed landscape of 2020, it puts at risk the country's broader economic recovery from the COVID-19 crisis.

While the scale of this economic shock is like nothing the aviation sector has ever experienced, the road ahead for airports and airlines is very different. We know that airports will come back from this, as they have done before. For airlines, it's far less certain. In the past 20 years, we've lost 18 regional airlines in Australia to these economic shocks. The pandemic and associated travel shutdown claimed Tigerair and saw Virgin Australia placed in administration. We know that the Government has concerns – expressed by the Treasurer – about the airline industry's commercial viability and sustainability.⁸⁰

At the same time, the Treasurer has taken decisive actions in other monopoly sectors, with a stated goal of delivering a regulatory framework that is fit for purpose, better protects Australian consumers, and addresses bargaining power imbalances.⁸¹ Importantly, these frameworks provide for a swift and effective resolution of disputes.⁸²

Now is not the time for the Government to continue to turn away from action on monopoly airports. With concerns over the airline industry's viability, it is more important than ever to take the opportunity to put in place reforms that will deliver the same benefits as the Treasurer has sought for other sectors.

***Recommendation:** The Government should form a stakeholder reference group to consider the most efficient, cost-effective approach to the resolution of disputes between airports and airlines.*

TARGETED ASSISTANCE

FUNDING OF REGIONAL AIRPORTS

Issues paper question 22: Do current Government airport grants target key priorities for regional airports?

Please refer to earlier commentary regarding the need for grants to be conditional upon the appropriate levels of consultation, transparency, and accountability.

SUSTAINABLE FUNDING FOR AUSTRALIA'S AVIATION SERVICES

Issues paper question 25: Are there options to rationalise the number of fees and methods of charging the aviation sector?

Please refer to earlier comments regarding the need to extend the AAFRP. In the sector's recovery, it will be important to keep all fees as low as possible. A4ANZ is certainly not supportive of any additional fees or levies being placed on industry.

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