

**SUBMISSION TO THE DEPARTMENT OF INFRASTRUCTURE, TRANSPORT,
REGIONAL DEVELOPMENT & LOCAL GOVERNMENT**



TOWARDS A NATIONAL AVIATION POLICY STATEMENT

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EXECUTIVE SUMMARY

Virgin Blue welcomes the opportunity to contribute to the Rudd Government's major review of Australia's aviation industry.

The next decade will see major structural changes in global aviation. The landscape is dominated by rising fuel prices, upward pressure on interest rates, a widely anticipated slow down in the domestic and international economies, an over-supply of airline capacity, escalating pressure on essential infrastructure together with escalating cost pressures from airport owner behaviour following the privatisation of the major airports.

Virgin Blue expects the impact of the fuel crisis on the aviation sector to be far greater than the impact of the terrorist attacks on September 11. Two years ago, fuel costs represented some 15 per cent of Virgin Blue's operating costs. Jet fuel costs now equate to 35 per cent. The company's fuel bill in the current financial year will be more than \$500 million, an increase of 21 per cent on the previous year.

The Australian Government and the aviation industry need to work closely together to secure the foundations which will guarantee the ongoing viability, efficiency and safe operation of the Australian aviation sector through the next decade. This in turn is vital to ensuring the continuation of Australia's economic prosperity.

Virgin Blue has provided a comprehensive response to the questions in the Aviation Issues Paper, and highlights below the following areas for particular focus:

1. The establishment of a fair and equitable industry framework which ensures that Australia's airline industry is and remains viable and competitive.
2. Addressing the limitations of Australia's airport infrastructure.
3. Modernising and streamlining the legislative regime to cater for the continually evolving nature of the airline industry.
4. An equitable allocation of the costs of services which are provided in the national interest, such as security, customs, quarantine and immigration.
5. Governance arrangements which ensure the government's own air travel policy is fair, transparent and based on "value for money" decisions.
6. An integrated approach to reducing greenhouse gas emissions.

1. A fair and equitable industry framework which ensures that Australia's airline industry remains viable and competitive.

The micro-economic reform to the aviation sector over the last two decades has delivered a highly competitive and transparent market for air travel in Australia. A strong indigenous presence in the market has been a significant factor in achieving this outcome and will continue to play an important role into the future. Care must be taken to ensure that Australian carriers are not exposed to unfettered and unfair competition in the international and domestic markets. In order to guarantee a level playing field, those aspects of Australia's regulatory and taxation regime which place Australian airlines at a comparative disadvantage must be reviewed.

2. Addressing the limitations of Australia's airport infrastructure.

Australia's major airports, whilst beginning to invest in much needed infrastructure improvements, struggle to cope with the demand of handling more than 45 million passenger movements per year. The primary pressure points are long term airport capacity and air space management. This is an area in which Government has a significant role to play, both through policy settings and through investment.

Virgin Blue welcomes the initiatives by the Rudd Government to improve and modernise the nation's infrastructure, through the establishment of Infrastructure Australia, the contribution of \$20 billion to the Building Australia Fund, the commitment of \$176 million to the Better Regions program and \$74 million for the Regional Development Network. These initiatives are timely and offer an opportunity to address Australia's airport infrastructure limitations.

A critical element of meeting the infrastructure challenge will be to ensure that airports are operating efficiently despite the lack of competition in their market. To date a "light handed" approach has been taken to regulation of Australian airports. This industry review provides an opportunity for the government to critically assess the effectiveness of that approach.

3. A modernised and streamlined legislative and regulatory regime

The aviation industry, like telecommunications, is one of the most highly regulated of all industries. Much of the existing legislative and regulatory framework is historically based, driven principally by aviation safety considerations and, since 9/11, improvements to security against terrorist attacks. There is a widely held view that technological advances have overtaken the legislative reform process, leading to inefficiencies and uncertainty for both the regulator and industry participants.

Virgin Blue sees this White Paper process as an ideal opportunity to undertake a holistic review of the legislative regime to establish a contemporary framework which responds to technological advances and which is flexible enough to cope with the ever changing demands of the industry. The new regime should provide clear direction to both the regulator and commercial operators, enabling them to focus on the safe and efficient operation of the system.

4. An equitable allocation of the costs of those services which are provided in the national interest.

National interest considerations are the paramount driver of government regulatory initiatives in relation to customs, immigration, quarantine and security. The members of the broader community are clearly the beneficiary of these services. To tax the aviation and tourism industry to meet the costs of these initiatives is contrary to the fundamental principle of "User Pays" as was acknowledged when the Counter Terrorism First Response charge was abolished. Equity and transparency principles applicable to all Government charges should be applied to the passenger movement charge and all other taxes and imposts on the airline industry. These should be examined holistically in the context of the Review of Australia's taxation system being conducted by Mr Ken Henry.

5. Governance arrangements to ensure the government's own air travel policy is fair, transparent and based on "value for money" decisions.

The Commonwealth Government currently spends approximately \$350 million per annum on domestic air travel. Virgin Blue receives around only 10% of Commonwealth Government domestic travel, despite having approximately 35% of Australia's domestic aviation market. As both a tax payer and a carrier, Virgin Blue would like to see the government establish robust governance arrangements for ensuring that the purchase of air travel is subject to the same principles of equity, transparency and value for money as any other form of government procurement. History tells us that it will not be enough to simply establish a "Best Fare of the Day" policy. A robust governance structure will need to be established and all barriers to adoption of the policy must be removed.

6. An integrated approach to reducing greenhouse gas emissions

Airlines have a history of innovation in reducing fuel consumption and continue to make advances in this area. Technology and operations are the primary focus from an airline's

perspective, but a collaborative holistic approach is required from government and all industry players. Improvement in air traffic management is a relatively low cost method of improving efficiency and reducing emissions. While carbon offset schemes will play an important part in the short term, they should be seen as a part of an integrated solution, with the priority on reducing direct emissions.

Summary

The aviation review being undertaken by the Rudd Government offers considerable scope to improve the efficiency, quality and safety of Australia's aviation industry. Given the record cost of fuel, the review is timely and essential. Virgin Blue looks forward to working with relevant departmental officers and ministers to introduce the range of improvements which will provide the basis for growing the aviation sector in a sustainable and productive way. One which harnesses successful commercial practices and removes impediments to growth.

Section 1 – The Australian Aviation Industry

Overview

Over the last two decades Australia has engaged in significant and on-going micro-economic reform of its aviation sector. Economic regulatory policy has been formally reviewed on numerous occasions during that period, the latest being as recently as February 2006. The inefficiencies of the domestic duopoly of the 1990's and of Australia's highly protected international markets have long since passed and there is no question that Australia has benefited from this process.

The reforms are dynamic and continue to evolve, supporting more liberal and transparent markets. As a consequence, Australia's aviation economic regulatory policies are at the leading edge of world's best practice. The measured pace of that reform in large part serves Australia's strategic interests. The reforms have seen the deregulation of the domestic market; foreign airlines establishing in the Australian market; significant liberalisation of international agreements which progressively have removed impediments to growth in air travel to and from Australia; open skies for international access to regional Australia; privatisation of airports; and a fundamental restructuring of air traffic services, aviation security and safety management. The reforms have been significant by any measure and, when taken together, can be matched only in a few other economies.

The next decade will see major structural changes in global aviation with an increasing focus on mergers, cross equity arrangements and alliances as Governments and airlines strive to deal with outmoded regulatory systems and restrictive business and policy practices that remain entrenched in the global aviation sector. At its logical conclusion, international liberalisation will inevitably encourage business migration to the source of lowest taxation, the lowest cost of labour and capital, and the most accommodative regulatory framework. These issues are at the heart of the Government's focus on investment and capacity building in the Australian economy and Government's ongoing policy settings will have a significant influence on where these issues ultimately rest.

The industry is cyclical; it has a voracious appetite for capital; is highly competitive, and is exposed to externalities over which it has little control but which constantly undermine financial outcomes. The landscape is dominated by rising fuel prices, upward pressure on interest rates, a widely anticipated slow down in the domestic and international economies and an over-supply of airline capacity. Additionally, escalating pressure on essential infrastructure including air space management and long term airport capacity together with considerable and escalating cost pressures from additional security charges and aeronautical charges flowing from airport owner behaviour following the privatisation of the major airports, are prevalent.

None of these pressures are new and whilst highly predictable, they rarely are recognised in the formal policy debate. There is little recognition that the very substantial and continuing investment by Australian airlines in capability building infrastructure in the form of new, highly efficient aircraft must be supported by allowing airlines to earn an acceptable return on the funds employed in this capacity building. The high priority given by the Government to investment, infrastructure development and capacity building in the Australian economy must be supported in its policy constructs.

The Australian domestic market is highly competitive. That competitiveness is ensured because Government policies provide a credible threat of entry from established foreign carriers which can set-up and compete on a level playing field with incumbent Australian carriers. We support policies that legitimately address the risk of market failure. However, we believe under the current policy settings there is an emerging and highly credible risk that Australia could become a dumping ground for profligate levels of airline capacity currently being introduced into Asian markets; so large it is unlikely to be fully absorbed within the Asian market itself.

Here the risk is simple. Capacity dumped into the Australian market simply because of poor business decisions taken in other markets, exacerbated by the failure of other Governments to engage in meaningful micro-economic reform, will have profound implications for the Australian aviation sector. The risk of destabilising the Australian domestic and international aviation markets is significant with highly negative implications for the aviation, travel and tourism sectors if not addressed. At a time when Australia should be doing everything in its power to ensure that the directional flows in strategic investment are in its favour, such outcomes could be highly disruptive and contrary to the Government's declared policy objectives for the economy as a whole.

Aspirational goals such as the creation of world class training facilities with export potential; maintaining jobs and a sophisticated aviation skill base in Australia; supporting infrastructure investment in new age environmentally friendlier aircraft; the provision of jet services to regional airports and addressing pilot shortages will best be achieved with industry specific policy initiatives supporting the Australian aviation sector.

Australia, as a relatively small end-of-the-line international market has, since the introduction of micro-economic reform to the aviation sector, encouraged the full integration by Australian carriers of domestic and international services. The principles that under-pin those objectives are sound and have not changed. A vibrant, transparent and contested Australian aviation industry should be a high policy priority for Government. This will only be achieved by ensuring that Australian carriers are not exposed to unfettered and unfair competition in the international and domestic markets. We recognise policy outcomes will depend inevitably on the Government achieving a complex balance between competing elements; however success is unlikely without ensuring a strong Australian presence in aviation markets.

Calls for increasingly marginal returns from micro-economic reform can be extremely disruptive in an environment where established Australian firms are faced with the challenges outlined above. The Australian aviation industry which has fully committed to and has absorbed the reform agenda and is undertaking massive infrastructure investment in productive capacity, will benefit most from a stable and highly predictable policy framework which will enable the challenges of the next decade to be addressed in a strategically predictable fashion, consistent with sound investment and infrastructure policy considerations.

1.1 International Services

Do Australia's international air services policies serve Australia's national interest and balance the need to have an Australian based industry with robust competition from international competitors? What should our negotiating priorities and approach be in the future?

The current policy settings are appropriate. Virgin Blue supports a progressive liberalisation in international aviation based on pragmatic national interest criteria, which creates opportunities for the Australian aviation industry, grows employment and supports strategic investment by Australian carriers supported by an optimum mix and number of commercially viable foreign airlines. The practice over many years of negotiating capacity ahead of demand within a generally liberal and progressive framework has, to a significant degree, resolved many of the supply side challenges facing the tourism and travel sectors of the Australian economy.

Australia has sophisticated and expansive bilateral arrangements with its strategically important offshore collection and distribution hubs which ensure access to global markets. There are few real impediments to growth in our other major market segments. Where impediments remain, they exist mainly because bilateral partners have been slow or unwilling to embrace regulatory reform or because of infrastructure constraints beyond the control of the Australian Government. There now exists within Australia's air services agreements a very significant inventory of unused capacity and route entitlements. The recently announced Tourism Strategy to be developed by the Government could usefully focus on concrete plans to utilise those excess entitlements.

The liberalisation debate is complex and does not lend itself to simplistic or easy solutions. The linkages between the five core elements of public policy in this area define national interest and form the policy debate:

- the survival of an Australian aviation industry;
- a competitive and deregulated domestic market;
- growth opportunities for Australian firms in international markets;
- that Australia can attract external investment to its aviation sector, and
- that international firms can effectively compete in this environment in the national interest.

Within the constraints of the bilateral system, the aviation sector has never been more open, more liberal, cheaper, safer, more technologically efficient, more universally available or more diverse in its history. It has been one of the central drivers in the rapid expansion of the global economy and it underpins the tourism sector.

Despite their shortcomings, bilateral air services agreements have been remarkably successful in establishing a global transportation system that has facilitated the growth of world trade and tourism under a universal set of agreed rules. The certainty and predictability of the bilateral approach has resulted in very low levels of real tension and controversy between developed and developing countries evident elsewhere in attempts to establish global trading rules. In the absence of meaningful progress on reform in multilateral fora as the World Trade Organisation and the International Civil Aviation Organisation, the bilateral system will remain a central force in global aviation. That being the case, Australia must ensure its national interest is fully represented in air services discussions.

Governments have long used airlines as instruments of national policy. Many international airlines are either technically insolvent or under the direct protection and support of their respective Governments. Some would not be permitted to trade in the Australian economy were it not for the protection of the air services treaties. The playing field is not level. In the policy debate there needs to be broader recognition of the true nature of challenges faced by Australian firms competing in such an environment and that certain markets will require an active Government industry policy.

A recent example of active industry policy was the series of decisions taken to support the entry of the Virgin Blue Group to long haul international services through V Australia. Those decisions were central to commitments made by the Group to invest some \$2.5 billion in new productive capacity for the Australian economy. That investment in turn will increase Australia's presence in global markets and strengthen the Group's contribution to increased employment and skilling in the economy and to the maintenance of a competitive and transparent domestic aviation market. The Australian aviation sector as a whole will introduce well over \$30 billion of new productive capacity to the Australian economy over the next decade, outstripping significantly complementary investment needed from down stream industries. The importance of that contribution must be understood fully in the policy debate.

While continuing the general strategy of keeping capacity ahead of demand, the policy focus must include strategies that recognise the contribution an Australian-based airline industry makes to the economy. Failing that, the sector will not attract long term strategic investment and will not be properly positioned for the challenges of the next decade. Through air services negotiations, a credible asset base of traffic and route rights and access to foreign markets should be maintained to ensure that future investment in the Australian aviation sector is attractive and predictable.

Australia and New Zealand have concluded an Open Skies air services agreement and Single Aviation Market agreement which comprehensively align aviation services with the overarching Closer Economic Relations agreement designed to merge the two economies. While the Trans

Tasman Mutual Recognition Agreement facilitates the safety regulatory oversight of aircraft registered in both economies and the recognition of licences and qualifications, at a practical level there still remains much to be finalised before a genuine single market is actually formed. We urge the Government to ensure that this long running process is finalised in the interests of economic efficiency and micro-economic reform.

Unilateral deregulation advocated by some ignores the importance achieving an appropriate balance between legitimate capacity growth and a credible domestic industry. Failure to achieve this balance inevitably will see investment flow away from the economy. With the challenge of capacity ahead of demand and the strategic commitment of the mega hub airlines to the Australian market now largely met, the emerging challenge for Australia will be effectively using the bilateral process to ensure that it successfully positions itself for the next decade. This inevitably will entail maintaining competitive tension between foreign carriers and the hub destinations they serve and ensuring the legitimate interests of the Australian aviation sector. As the decade plays out in an increasingly complex environment, we see no pressing need for Australia to be at the forefront of change simply for its own sake unless national interest benefits can clearly be articulated.

How might the Australian Government continue to develop improved competition and access to services while maintaining appropriate levels of aviation safety and security?

In progressively implementing micro-economic reform policies in both the domestic and international markets the Government must ensure that safety and security standards are not compromised. This is particularly important as changes inevitably are made to the ownership and control rules in international air services agreements to accommodate consolidation and mergers and to align the economic regulation of the aviation sector with contemporary global trade rules. It is equally important to ensure that the risk of capacity being dumped in the Australian market is not compounded by a reduction in commitment to best practice in safety and security regulation. Australia must not become a flag of convenience.

Australia should promote, both multilaterally and through bilateral agreements with like minded countries, a commitment to maintaining and improving global aviation safety standards. This will be particularly important as demand for air services increases in an environment which will demand increasingly less Governmental intervention in economic regulation; less political oversight of the aviation industry, and higher levels of cross-border ownership of airlines. Standards such as IOSA, which complement the recommended standards and practices of the International Civil Aviation Organisation, should be encouraged as a part of broader regulatory measures designed to promote higher safety standards.

How will new routes, technology and business structures change the profile of Australia's aviation market? Given Australia's evolving aviation sector, to which markets should the Australian Government seek improved access?

During the last two decades, we have witnessed significant changes in Australia's domestic and international markets through the highly successful dismantling of the domestic duopoly and the effective opening up of Australia's international markets resulting from reform of our international air services agreements.

The reform of the international sector and market circumstances has seen a number of foreign airlines withdraw from Australia and the introduction of new carriers. The geographic distribution of carriers has changed significantly in that time, the most significant feature of which has been the systematic withdrawal of European carriers from the Australian market, leaving one of Australia's most important tourism and trade markets largely dependent on third country airlines. In net terms, the number of airlines serving Australia has remained relatively static for many years and Australia remains dependent on around ten carriers for about 70% of all international traffic. A measurable proportion of new airline capacity is now directed at the Australian outbound market.

A constant throughout that time has remained the strategic importance of off-shore hubs to the collection and distribution of traffic travelling to and from Australia, although the relative importance of individual hubs has shifted significantly in recent times. The introduction of new technology will have a marked effect on the role of individual hubs and may reduce the ability of Australia to maintain genuine commercial tension between the hubs in the national interest.

It is not clear from the available evidence if these fundamental changes have achieved for Australia an optimum mix or optimum number of airlines serving our international markets. Nor has there been a forensic analysis of the benefits of negotiating capacity ahead of demand or the long term value of hard rights either negotiated or forgone in treaty negotiations.

A steady state environment is most unlikely in the next decade with inherent instability in global markets; legitimate and long overdue pressure for consolidation and restructuring, and escalating cost pressures on airlines. This inevitably will challenge the commercial viability of airline services to Australia with a consequential flow-on to downstream Australian industries. The combination of these events will see airlines focusing increasingly on the conduct of their businesses. Governments will be called upon to reconsider traditional support bases, particularly the mechanisms needed to ensure airlines have appropriate access to investment capital.

Even in a steady state, airlines operating in the Australian market will rationalise services unless they can be assured long term commercial viability and sustainable yields. It is likely that the opportunity cost of serving Australia is rising for many airlines and will become an important consideration as markets elsewhere, particularly those in Asia, continue to grow both in demand and in profit potential. These factors will need to be recognised in Australia's policy approach which must be built on a structured acceptance of the challenges being faced by the aviation sector.

How might the Australian Government best ensure all international airlines flying into Australia maintain the highest of safety standards? How might the Australian Government most effectively monitor and enforce safety standards of airlines that lease aircraft rather than operating their own aircraft?

Maintaining the highest safety standards for international airlines operating into Australia must remain a high priority for the Government. There are a number of measures which will assist in the delivery of such outcomes. The most important of these is ensuring that CASA is adequately resourced, trained and equipped to manage the safety oversight of international airlines operating to Australia. We discuss these issues in more detail elsewhere in the submission. In addition, the inclusion of overarching obligations in the Safety Articles of Australia's bilateral air services agreements gives high level support to maintaining safety standards. These Articles can require compulsory consultation at any time concerning safety standards in any area relating to aeronautical facilities, aircrew, aircraft or their operation. This process has as its core objective ensuring that minimum ICAO standards are maintained. Failure to comply with these standards could establish grounds for withdrawal of access to the Australian market. We encourage the Government to continue to include provisions in air services agreements which would enable regular checks of the validity of aircraft documents and those of its crews and the apparent condition of the aircraft and its equipment (ramp checks). Treaty language in this area should be reviewed regularly and should reflect appropriate minimum safety standards.

The operation of wet or dry leased aircraft, which is also addressed in Australia's bilateral air services agreements, should be conducted under the protection of the entry control standards for a Regular Public Transport Australian Air Operators Certificate. Australia only has a limited number of Bilateral Air Safety Agreements and we encourage the Government to ensure that such agreements are negotiated with all of our major trading partners. Virgin Blue would also encourage the Government to continue to support and assist the International Civil Aviation Organisation in its efforts to maintain global safety standards.

Australia needs to exercise operational vigilance in respect of charter operations. Australia accepts on a regular basis ad hoc passenger charter programs from airlines registered in countries in which we have a high degree of confidence that regulatory standards are comparable with our own safety standards. In these circumstances we would generally accept the foreign standards as appropriate. Increasingly however, we are seeing more charters, including one-off flights, operated by airlines whose registry is not generally familiar or is exotic in Australia's general experience. We suggest such charters may need to be classified as a higher risk and that formal hand-over processes may need to be established with the national aviation administration of the operator.

As discussed earlier in this submission we remain concerned that the progressive reform of global aviation should not result in a reduction of safety standards and that flags of convenience are not established or encouraged. The international market is far from being a level playing field and we would be deeply concerned if pressure for economic regulatory reform is not linked to measures to ensure that international airlines operating to Australia are operating at the same level of safety standards required of Australian carriers.

How might access to Australian destinations outside the four major gateways of Sydney, Brisbane, Melbourne or Perth be increased? What role could State governments and communities have in attracting foreign and Australian airlines to Australia's smaller international airports?

For many years it has been Australian policy to offer in air services negotiations open access to Australian international airports other than Sydney, Melbourne, Brisbane and Perth, often without reciprocal benefits. We support that policy. While the policy has seen the removal of significant barriers to the development of international services to regional destinations, very few foreign airlines have taken advantage of the available rights.

The strongest commitment to Australian regional centres comes from Australian carriers either through direct international services or by providing air access to Australia's international gateways. The Australian aviation sector continues to grow and develop regional services, with many major regional centres now served by jet aircraft in a highly competitive market. As will be discussed further in this submission, the viability and long term growth of regional services will be linked closely to the overall domestic policy framework. The challenge now is for State Governments, regional communities and the tourism sector to promote and further develop tourism, both domestic and international, to regional Australia.

Few airlines are prepared to carry loss-making routes. The implications are clear for regional Australia. Airlines will judge a market segment by its revenue generating capacity, market density, seasonality, market balance and the opportunity cost of serving markets, that is to say, judgments similar to those made by any other major business in any other sector of the economy. Whilst this has not always been the case in the aviation sector, it is now and will continue to be into the future.

During the last decade there has been no appreciable change in the international market profile of regional destinations. As pressure mounts to return international airlines to profit, domestic regional markets will come under sustained pressure from competitor destinations that are closer to traditional source markets and cheaper to serve from an airline perspective, particularly those in Asia, where, by contrast to Australia, massive investment is being undertaken in essential tourism infrastructure. The target area for air services is clearly defined, and within those targets there are no Governmental constraints on airline capacity or access.

Should Australia continue to pursue an "open-cargo" policy for dedicated cargo services? What cost-effective strategies could be employed to avoid delays in the transport of time-sensitive air freight?

We support an open-cargo policy for dedicated cargo services. There would appear to be little potential benefit in air services negotiations using cargo rights as leverage to obtain enhanced

outcomes for passenger services and the national interest supports removing impediments to the efficient movement of air freight into and out of Australia. The substantial growth in passenger services to Australia has seen a very significant increase in belly hold freight capacity available to Australian exporters and importers. This has been supplemented by a highly liberal approach to capacity and route rights available to dedicated freight airlines wishing to operate to and from Australia.

Are the current restrictions on foreign airlines accessing the domestic market appropriate? Should we be encouraging more international airlines to operate from Australia to third markets?

Established policy actively supports inward investment in the Australian domestic aviation industry by foreign airlines and is recognised as world best practice. Its strength lies in the fact that new entrant carriers can establish and operate in direct competition with incumbent carriers but on equal terms. In contrast, cabotage concessions which would simply encourage foreign international airlines to cherry pick high density trunk routes by adding marginally costed extra sectors to existing international services would effectively remove incentives for foreign airlines contemplating establishing as fully fledged domestic airlines.

Inward investment is already complemented by rights conceded to foreign carriers to code share on Australian domestic airlines; carry their own-stopover traffic, and unlimited access to capacity, code share and own-stopover traffic under the regional access package negotiated under the air services agreements.

The deregulated Australian domestic market is very efficient and competitive. It is likely very little additional efficiency would be gained by granting foreign airlines cabotage concessions. Any efficiency would be outweighed by the significant disincentive to carriers contemplating a broader investment in the Australian market, as the policy encourages.

A defining characteristic of the Australian domestic market is its dependence on network operations. The geographic and demographic complexity of the market imposes high cost burdens. The introduction of cabotage on major trunk routes is unlikely to significantly impact incumbent behaviour on those sectors. Nevertheless the cost must be met somewhere. Inevitably that would be at the lower, more marginal end of the network. Many regional and rural air routes in Australia depend on the support of high density trunk routes for direct feed and network efficiency and the cost burden of cabotage concessions would disproportionately be borne by the bottom end of the market. It is not clear why Australia, in the current circumstances of its home market, should put at risk what is by any means good public policy by allowing foreign carriers to engage in cabotage services.

We support progressive liberalisation in international aviation and recognise that there may be occasions where the national interest might be advanced by including seventh freedom rights in air services agreements. However, as with other hard rights negotiated in these agreements, reciprocal benefits of comparable value should, as a matter of course, be sought by Australian negotiators. It will principally be through the building of Australia's asset base of traffic and route rights that the Government will best position the Australian aviation industry as the global industry restructures over the next decade. If the policy objective is to attract investment, jobs and skills to the Australian economy, as it must be, unilateral concessions of any hard rights, including seventh freedom rights, should be contemplated only in exceptional circumstances.

The opportunity for genuine exchanges built around seventh freedom rights is likely to be limited. It is instructive that very few of the leading aviation economies have conceded seventh freedom rights to third country carriers and it is likely to be many years before any serious progress is made in this respect. At a practical level, the benefits of third country carrier access to bilateral markets are already achieved through the very extensive network of fifth freedom rights negotiated by Australia over the last three decades. Due to our geographic position, most of the major foreign carriers operating to Australia also have extensive sixth freedom opportunities which, when

combined with the policy of negotiating capacity ahead of demand, provide extensive access to third country markets. The inherent value in this construction, as opposed to seventh freedom rights, which focus inevitably on high volume city pairs, is that fifth and sixth freedom rights are generally built around complex route structures and hub operations through which the tourism and travel benefits to the Australian economy are significantly enhanced. Access to fifth freedom rights has enabled Australian carriers to build extensive international network operations and is a cornerstone of positioning Australia in global aviation markets.

Markets likely to attract seventh freedom interest and supported by the three Governments needed to put such arrangements in place, are likely to already be efficient and competitive with high volumes of capacity and demand, and will likely already have a significant third country presence through fifth and sixth freedom carriers.

Allowing foreign carriers to base themselves permanently in Australia and to participate in Australia's international markets through seventh freedom operations is the policy equivalent of inward investment in the Australian domestic market. However, the circumstances of the two market segments are fundamentally different. The risk of market failure is not evident in the international markets, and international aviation is far from being a level playing field. Given the almost universal hostility to seventh freedom by governments around the world, concessions granted by Australia would almost certainly be unilateral and not reciprocated by third country governments. Without countervailing benefits, the effect would simply be to devalue investment by Australian carriers in capacity, employment and skill building in the Australian economy.

Australia is already faced with the prospect of capacity dumping into its domestic market and needs to be extremely careful not to present the same opportunity in international markets. The absence of mechanisms to ensure market forces are the sole determinant of carrier fitness and efficiency cautions against calls for deregulation in markets where the playing field is far from level. Australia has a hard earned reputation as a world leader in micro-economic reform, safety and security management. This reputation must be protected against any risk of Australia becoming a flag of convenience used by foreign airlines and their governments to prosecute their commercial or national interest at the expense of Australia's. As Governments strive to address the fundamentals of global regulatory reform little progress will be achieved if policy actually encourages such outcomes.

Taken together, concessions to foreign airlines in respect of cabotage and seventh freedom rights have the potential to reduce significantly Australia's capacity to attract external investment to its aviation sector. This is an important issue which goes to the long term structural efficiency of the Australian industry.

How might existing Australian airport infrastructure best adapt to the challenge of processing large influxes of passengers?

By contemporary global standards Australian airport infrastructure currently meets acceptable standards. However, there is growing evidence that significant pressure points are developing. These will be exacerbated by the progressive introduction of new generation high capacity aircraft together with anticipated traffic growth. The cost burdens faced by the aviation sector are already significant and inefficiencies associated with airport infrastructure will only add further to these pressures. International passenger traffic will increase on average by 5% per annum over the next decade and, at that rate the market will double within the next fifteen years. Infrastructure must expand significantly to meet forecast increases in demand.

The current practices of cost recovery for Customs, Immigration and Quarantine (CIQ) services through a Passenger Movement Charge (PMC) needs to be critically re-examined. Funding the future expansion of essential CIQ facilities to the extent envisaged in the demand forecasts inevitably will increase pressure to expand the PMC, which in turn will increase the administrative and cost burden on airlines; increase air fares and impact negatively the demand for air travel. The essential question is where the ultimate benefit is derived from these services. Virgin Blue

does not believe the principal beneficiaries of CIQ are airline passengers, but rather the broader community. Where national interest considerations are clearly the paramount driver of the regulatory measures, a tax imposed exclusively on the aviation and tourism sectors appears to be anachronistic.

Virgin Blue's second concern relates to the inevitable expansion of airport infrastructure to accommodate forecast traffic growth and how the cost burden associated with the resultant expansion of regulatory activities might ultimately be reflected in terminal usage charges. No part of any additional regulatory infrastructure costs should be passed on to airlines.

The international aviation industry inevitably will be faced with higher environmental, infrastructure and slot management constraints as global aviation activity grows and these pressures will be reflected in peak period demand at Australian airports. Recognition that infrastructure peaks imposed on airlines and airport operators are often determined by influences beyond their control will be critical to the long term sustainable development of tourism and travel to and from Australia. Geographical separation from our major markets will ensure that this will be an increasingly difficult issue for Australia.

We would also encourage the Government to ensure that the regulatory process is as efficient as possible and that multi-skilling and shared legislative authority is further encouraged amongst the CIQ agencies to ensure cost effective service delivery without compromising community standards or expectations.

What are the implications of expanded international operations at secondary airports, including for border security? Should Australia seek to limit international airline and charter operations to a defined set of international airports to ensure affordable border security?

As mentioned previously, it has been Australian policy for many years to offer in air services negotiations open access to Australian international airports other than Sydney, Melbourne, Brisbane and Perth. Virgin Blue supports that policy. While the policy has seen the removal of significant barriers to the development of international services to regional destinations, very few foreign airlines have taken advantage of the available rights.

International operations at these secondary airports will obviously necessitate the provision of border security services, including Immigration, Customs and AQIS. Given the distributed nature of these airports, the provision of these services will attract a higher per unit cost than those provided at Australia's main international airports.

However, the differential cost in the provision of these border security services should not be a reason for abandoning the current policy of allowing access for carriers to undertake international operations into and out of secondary airports.

For a number of regional communities seasonal, short duration international charter programs represent the only realistic prospect of direct international services and have a demonstrated capacity to bring considerable and tangible benefits not otherwise available to the community. For some regional airports such programs might not require permanent CIQ or security infrastructure. For those airports, the cost of providing appropriate additional security and ad hoc CIQ cover should continue to be met on a user-pays basis and should not be levied against other airport users. If financial support is required to encourage the development of such programs in the community interest, such support should be provided only on a transparent basis and reflect established community service obligations.

1.2 Domestic Services

Does the deregulated domestic airline market remain the best model for delivery of Australia's interstate air services? Are there any constraints on the ability of Australian-owned airlines to remain competitive with foreign-owned airlines in the Australian market?

We support the current policy of maintaining a deregulated Australian domestic market and support the inward investment policy as a means of ensuring that if market failure occurs it can be addressed by Government in the national interest. However, under the current policy settings we are also very concerned that Australia could become a dumping ground for excess capacity introduced into but not absorbed in Asian markets.

This issue has the potential to undermine years of productive and innovative policy and the very high levels of investment by the Australian aviation industry in infrastructure which has underpinned the extraordinary growth in the national aviation, tourism and travel sectors in recent years. If the threat materialises, it would have the real potential to undermine significantly the prospect of strategic inward investment in established Australian firms which is essential to ensuring the directional flows in investment are in Australia's favour over the next decade and that the massive on-going investment by the Australian aviation sector is recognised and supported in the formal policy settings.

In order to avoid the very real and obvious risks associated with such outcomes we believe that careful and deliberate consideration must be given to establishing mechanisms that on the one hand ensure that market failure can be addressed in the national interest but, at the same time, ensure that Australia does not simply become a flag of convenience. We believe the circumstances of the Australian market and the long term strategic interests of the Australian economy may not adequately be served by a simple negative test under the Foreign Investment guidelines and that serious consideration should be given to the development of tests based on criteria that reflect fully the risks to the national interest and the complexity of the issues under consideration.

Do the existing criteria strike the right balance between allowing Australian airlines to access global investment markets and promoting an Australian-based aviation industry?

In an industry as technically sophisticated as aviation, the Government imposed restrictions on the movement of capital essential to the economic wellbeing of the international aviation industry remains an anachronism. These restrictions, enshrined in air services agreements, require that an airline established and licensed in one economy must be owned and effectively controlled by nationals of that economy. It is within the power of an economy to prevent an airline from accessing its market if it is not satisfied that the airline is owned and effectively controlled by nationals of the bilateral country partner.

At the centre of on-going development of global trade, Foreign Direct Investment barriers are being dismantled but not in the aviation sector. Consequently, these rules have the potential to frustrate the development of meaningful reform in global aviation. On the positive side, the rules provide tangible support for safety and security standards by ensuring that economies designating airlines under the terms of the air services agreements are also responsible for safety and security oversight, avoiding the problems of flags of convenience which have caused so much concern in international shipping. In addressing the central concern of ensuring the free movement of capital, the primacy of safety and security oversight must be guaranteed.

Restrictions imposed on the free movement of capital have led to the creation of a substantial underclass in world aviation of debt ridden and capital starved airlines. These airlines are far from confined to developing economies or the third world. Meaningful reform of these rules will be difficult, complicated by the fact that governments come at this issue from very different perspectives. The prospect of the US, for example allowing foreign ownership of its aviation

sector still seems remote despite recent suggestions of movement in the context of its relations with the EU.

As pressure continues for consolidation within the aviation sector, enterprises that build the most efficient networks, increase efficiency and introduce economies of scale and scope will establish comparative advantages over those that cannot. Mergers, cross equity relationships and commercial alliances will be the driving force in world aviation in the next decade. Airlines that are not properly positioned to participate in those relationships will suffer, as will their client industries.

Serious questions are raised about the efficacy of a system that limits the flexibility of airline management in choosing the mix of capital it deems best suited to its needs, particularly airlines in private ownership with responsibilities to shareholder interests. This is compounded by the fact that while Australia's investment guidelines permit foreign airlines to acquire up to 100% of the equity in Australian domestic airlines, there are very few opportunities for Australian airlines or individuals to make similar investments off-shore.

Compounding the regulatory restrictions on capital are features of the Australian taxation system that impede airlines' access to foreign capital. Of particular concern are:

- Subjecting payments of interest to non-residents to interest withholding tax. Lenders frequently require borrowers to bear any withholding tax liability through "gross-ups", which require the borrower to increase interest payments to cover any applicable withholding tax. While the United States and United Kingdom taxation treaties have removed interest withholding taxes, the exemptions only cover interest paid to financial institutions. Further, no other key taxation treaties exempt interest payments from withholding tax (notably Singapore, for example, which is an important aviation financing hub).
- Subjecting aircraft lease rentals to withholding tax. Similar to the point noted above in relation to interest, lease rentals are also subject to a withholding tax regime the costs of which are effectively borne by Australian lessees. Again, the United States and United Kingdom tax treaties have exempted equipment lease rentals from withholding tax, but no other key treaties do.
- Companies that have limited inward and outward offshore investment are subject to a "thin capitalisation" regime, which seeks to limit the tax deductibility of interest where, broadly, debt gearing levels exceed 75% of assets. Such a restriction is artificial and limits any freedom of choice as to how to fund investment.
- Some regional tax regimes are extremely favourable to airlines. Singapore, for example, allows airlines to depreciate the cost of purchased aircraft over three years (Australia, on the other hand, only allows such claims over 10 years). Given the extremely capital-intensive nature of the industry, consideration should be given to allowing a shorter write-off of aircraft acquisition costs.

Further, Australia's tax treaties and airline profits agreements frequently contain mutual exemptions from tax for international carriers. This limits taxing rights on international aircraft operation profits to the carrier's country of residence. In the absence of mutual exemptions, foreign carriers must attempt to apportion profits to relevant jurisdictions and suffer tax accordingly. Australia's treaty (or at least airline profit agreements where it is considered not appropriate to enter into a full taxation treaty) network should be extended, particularly in the region. Key jurisdictions include Hong Kong, Philippines (where there is a tax treaty but it does not include reciprocal airline profit exemptions), Samoa and Tonga.

In the increasingly complex aviation environment Australian firms must have legitimate opportunities to develop joint venture or similar commercial opportunities with foreign carriers that will, if permitted to mature, have the capacity to deliver for the Government many of its policy objectives focused on investment, infrastructure and capability building within the Australian economy. The absence of mechanisms that allow the free movement of capital inevitably will limit

the ability of the Australian aviation sector to achieve its full potential. We strongly encourage the Government to include such issues in balance of benefits and balance of opportunities considerations when framing its air services negotiating strategies.

1.3 Regional and General Aviation

What should be the basis of Government and industry policy towards air services to regional and remote communities?

A stable and commercially viable domestic aviation sector, underpinned by policy settings which support national networks serving regional destinations and providing essential feed to second and third level air services, remains an essential element in providing air services to regional and remote communities.

In most circumstances, we believe market forces should be the key determinant in the provision of air services. In circumstances where public policy or community expectations require the provision of air services, but which are unable to sustain commercially viable services, the Government may wish to consider explicit and transparent subsidies to meet specific Community Service Obligations.

A number of intra-State air routes receive direct subsidies from State Governments and are often awarded on an exclusive basis. There may be merit in encouraging greater co-operation between State and Territory governments if subsidies extending into other jurisdictions could improve efficiency and result in more competition and transparency.

Are security and safety measures adopted for major capital city trunk routes appropriate for regional and remote services? If not, what alternative measures could be adopted?

In general terms, we believe it is appropriate that comparable safety and security measures are uniformly available in Australia. It is difficult to sustain a public policy argument that regional and remote communities should not have the same level of protection as is available on major capital city trunk routes. That standard, which we discuss in more detail later in this submission, should be based on actual risk assessment and not on aspirational infrastructure goals.

The challenge inevitably in establishing and maintaining security infrastructure and support facilities is how to apportion the cost of providing such facilities in weak market segments without reverting to network pricing, which we would strongly oppose. It is simply not sustainable to load up the cost of providing such services on an aviation sector already struggling with its own challenges. We believe there is a sustainable case for at least a number of regional airports and support facilities to be designated as essential national transport infrastructure and included in the infrastructure program being developed by the Government or in the existing AusLink program.

Another essential element in the resolution of these challenges will be to ensure that the imposition of safety and security costs reflect the actual beneficiaries of those services and the need to ensure that security measures are based on actual threat assessment and not the provision of aspirational security infrastructure. It is important that consistent standards are established and maintained across all screening authorities and that the standards reflect reasonable risk based criteria. While we support best practice, it should not of itself drive a desire for "gold-plated" infrastructure and aspirational systems beyond established risk profiles and the ability of industry to support such expenditure. A flexible approach is required. Alternatives to full passenger and baggage screening, such as passenger screening with Explosive Trace Detection of checked baggage or random bag searches, offer a cost effective approach to achieving the same level of security outcomes.

What role should all levels of Government have in protecting secondary airport infrastructure and in providing for new infrastructure?

Virgin Blue believes that all levels of Government have at least an advisory role to play in the development of secondary airport infrastructure. This may be in the form of critical infrastructure advice and advising on the integration of security risk management into the airport design and operations together with the provision of regular, intelligence-based threat and risk assessments. It then should be incumbent on the owners and operators of these secondary airports to manage and bear the risk associated with any such threats.

There is a strong argument to consider essential infrastructure, such as secondary airports, as a part of a community's obligation to support regional and remote communities when the airports cannot be sustained through normal commercial activity. Conceptually, these secondary airports should be treated no differently to schools, medical facilities, policing, postal services, non-aviation transport modes and other essential services which attract support from either/or Commonwealth, State and local governments. Again, if subsidisation is required to support secondary airports it should be transparent and not imposed indiscriminately on commercial service providers such as incumbent airlines. Australia's airlines are not instruments of public policy. We operate in one of the most contested markets in the world and that should be reflected in the broader policy settings.

1.4 Addressing Skills Needs in the Aviation Industry

What strategies should the industry adopt to attract, retain and plan for their future skills needs to remain competitive in a tight labour market, and how can these be improved? What are the long-term training needs for the Australian aviation industry? Where will the future pressures lie? How do we ensure the industry remains internationally competitive in retaining key staff and in attracting new entrants to the workforce?

The aviation industry is experiencing major skills shortages, particularly for pilots, aircraft engineers and other technical specialists. Work is underway within Virgin Blue, in consultation with Griffith University, to introduce a pilot training program. This will build on the support being provided by Virgin Blue to Aviation High in Hendra, Brisbane and 17 other schools across Queensland assisting students to receive accredited pilot training in their final years at school. There is a case for extending this program across the nation. Virgin Blue also recommends a HECS based scheme to assist and encourage the entry into the industry of new pilots.

The focus should also be on apprenticeship based schemes and other programs for attracting secondary school students into the industry. Currently certain States offer financial support for full-time trade qualifications, including apprentice aircraft engineers. Improved access for secondary level educators (particularly those engaged in career counselling roles) to further education in regards to available careers in the aerospace industry would also assist in recruitment into the industry.

Other measures which should be introduced to overcome skills shortages include introducing now CASR Part 66 Regulations aimed at mandating engineering and technical licence holders and overcoming the existing inefficient dual system.

It is equally important that the technical and managerial training needs of CASA and Airservices are recognised to ensure that suitably qualified personnel are available for essential regulatory supervision of the aviation industry.

How should the Australian Government and industry work together to ensure the needs of the aviation industry are taken into account in its broader skills framework?

There is a need for greater consultation and collaboration across industry, Government and educational providers to come up with a solid and effective cross-functional body to address skills

shortage and to determine what the actual requirements of the industry are going forward for the next 10-20 years.

Stronger recognition of the Transport Industry Logistics Skills Council's Aviation Committee by Government would enable those at Ministerial level to receive current information on industry skills training requirements to make effective and robust aviation skills policy decisions.

Virgin Blue would encourage the Government to make funds available to encourage the expansion and development of Registered Training Organisations in the aviation sector as a part of expanded apprentice training programs and as a means of addressing skill shortages in the sector. The significant skill base already present in the aviation industry can be used to address skill shortages if innovative and creative incentives are developed to encourage industry participation.

Are proposals such as a national industry run flying school to train flying instructors worth investigating and, if so, how might such a school operate?

The challenge in relation to flying instructors is primarily a retention issue. Flight instruction is commonly regarded as a step in the career path to employment as an airline pilot, making it difficult for flying schools to retain instructors. Yet without flight instructors there can be no pilots. Airlines and flying schools need to work together with support from government to develop a program which provides career opportunities for flying instructors without depleting the pool of flight instructors. One option for consideration would be a program of rotation of flight instructors through the airlines and flying schools.

Section 2 – Aviation Infrastructure

Overview

The Australian aviation sector is facing significant challenges over the next decade. An important element in those challenges will be ensuring essential infrastructure can support the projected growth in aviation activity and ensure that the ongoing micro-economic reform initiatives of both Government and industry are not frustrated by inefficient delivery of infrastructure support. The core infrastructure challenges are long term airport capacity and air space management.

Industry is already witnessing early evidence of peak period constraints at key Australian airports. These pressures will grow in line with increased demand for air travel and increasing complexity in the aviation sector. International airlines operating to Australia, because of escalating slot and airspace constraints up and down trunk routes, will progressively have less flexibility in the windows available to them in Australia. This in turn will increase pressure on peak period slots in Australia. Environmental pressure on airports will increase in line with public expectations and community pressure. Key Australian airport infrastructure valued in billions of dollars currently is not permitted to operate at optimum efficiently and that situation is unlikely to ease. The downstream consequences of that inefficiency are considerable and ultimately will have a measurable and negative impact on key drivers in the Australian economy, particularly the aviation and tourism sectors.

The public debate is highly political and sufficiently complex to encourage deferral or avoidance of important policy decisions, particularly those associated with long term infrastructure planning and development. Whilst airport capacity has been sufficiently flexible to this point to enable deferral, that flexibility is rapidly shortening and, given the long lead times associated with infrastructure development, may well have passed the point where inaction is a plausible response. In the public debate, inevitably polarised around sectoral interest, the Government generally has taken the role of facilitator or mediator, and has not been a visible advocate of strategically important airport infrastructure. The national interest dictates that process must become more transparent and the legitimate interest of all stakeholders become more prominent in the public debate and policy planning.

As it stands, the burden of dealing with the short term consequences of inefficient infrastructure will fall disproportionately on the aviation sector, air travellers and downstream dependent industries. It is highly unlikely that hourly movement restrictions will be lifted or airport operating hours increased. Nor is it likely that the continuing and highly expensive investment in very efficient state of the art aircraft with radically lower environmental footprints will have a material effect in the debate over the carrying-capacity of airports. Consequently, remedial measures are likely to be limited to airlines investing in higher capacity aircraft to deal with slot constraints or airport operators introducing peak period pricing in order to manage demand for constrained slots. Australian airlines are highly efficient and have little real scope to improve efficiency dividends, including those associated with the introduction of new aircraft types where economies are increasingly marginal. In either of the above scenarios the implications for the end-users of air transport are clear - increased prices.

Policy planners must recognise the conjunction of the inevitable cost burden on airlines of inefficient airport infrastructure and the continuing demand on airlines for on-going dividends from micro-economic reform, discussed earlier in this submission. The two streams simply are incompatible. The seemingly casual indifference to the reality of these circumstances which has previously dominated the policy landscape cannot continue. We support fully the Government's high level commitment to infrastructure reform and investment and recommend that a high priority be given to both the short and longer term challenges associated with maintaining fully efficient airport infrastructure in the national interest.

Equally, the challenges implicit in ensuring that air space management in Australia meets safety requirements and is capable of accommodating the forecast growth in the Australian market are

significant and will require positive intervention by Government to ensure the twin objectives are met in the national interest. Here the challenge is to ensure that Australia has access to and implements world best practice supported by the latest technology essential to efficient air space management in an increasingly complex operational environment. The introduction of new technology has the capacity to deliver significant efficiency benefits to the aviation sector and the Australian economy. It is important that international industry leaders such as ASTRA and IATA, together with the Australian industry and Government, form a collaborative working relationship to ensure that appropriate and timely changes are introduced in the national interest.

2.1 Airport Planning and Development

Are the planning and development mechanisms under the Airports Act working effectively?

Airports are located generally in or adjacent to major urban centres and are often bordered by both commercial and residential areas. As a consequence checks and balances on airport planning and development proposals, supported by public consultation where appropriate, is a matter of public interest which we support. However, the master-planning requirements of the *Airports Act 1996* have little flexibility and consideration should be given to easing some of the substantial bureaucratic burden imposed currently on airport operators and airlines.

For development projects with no obvious external impact and aeronautical rather than non-aeronautical in nature (such as terminal extensions which sit well within the airport boundaries) it is debatable whether the cost and delays associated with full Master Development Plan (MDP) requirements are necessary or are of legitimate concern to the wider community.

The ability to expeditiously extend facilities to accommodate growth remains a fundamental roadblock for airports. Given the lead time needed for planning and funding such developments, the additional requirement for an MDP and the requisite time for comment and processing responses have a significant detrimental effect on timely project delivery and industry efficiency. For airlines this can mean delaying the introduction of new services and subsequent negative impact on airline revenue.

How can we improve consultation with State and local authorities and with the community?

Public debate and consultation with State and local governments concerning airport planning and development would produce significant benefits. It would allow for a more transparent process with a higher focus on the importance of essential airport infrastructure to the national economy than has been evident in the past. We appreciate fully the policy and political complexity and the strongly held community views associated with airport development, but of itself, this complexity is not sufficient justification for a lack of transparency in public policy.

Essential national transport infrastructure must be efficient and operate in the national interest. Without high level cooperation between Federal, State and local authorities that efficiency will not be achieved. Equally, without high level Federal government support airports simply will not be able to operate at optimal levels. The consultative process between the various levels of Government would also be enhanced significantly through harmonisation of law and practice relating to planning and business approvals around airports.

Could the regulatory regime better facilitate genuine long-term co-operation between airport operator companies and state and local governments on land use planning?

Virgin Blue believes high priority should be given to facilitating genuine long term cooperation between airport operators and Federal, State and local governments supported, where appropriate, through regulatory reform. The current largely dysfunctional arrangements between governments are not compatible with the management and long term development of strategically important infrastructure. By way of example, risks associated with bird strike near airports, are in direct proportion to decisions taken by local government concerning the location of refuse stations

and tipping sites; decisions over which airport operators or airlines have no control. The development of uniform rules, law and practice in respect of these and related matters should be a national priority.

How can the regulatory regime better ensure non-aeronautical developments do not compromise the aeronautical requirements of airlines and airports? How should the potential commercial impact for off-airport competition be taken into account in planning on-airport non-aeronautical development?

Airports, particularly those serving major population centres, need to be seen as priority infrastructure, or nationally significant economic infrastructure. The current arrangement whereby airport land is annexed as "Federal" and then surrounded by State and Local Government controlled land means that the coordination of support infrastructure (roads, rail etc) can only be achieved through agreement between the various tiers of Government, which has often proven difficult to achieve. This represents a significant risk to the timing of any new development, be it to existing airports or green-field sites.

Given that airports are strategically important, national interest infrastructure, consideration should be given to the joint development of planning guidelines, processes and legislation between the various tiers of Government for a specified area surrounding major and regional airports.

In the long term national interest, Government must ensure that airport operators do not lose sight of core obligations to ensure that aeronautical activity remains the primary purpose of airport infrastructure.

How can the mechanisms for guiding development around airports be improved to ensure potential issues from aircraft noise are fully addressed in planning?

The current system administered by the Government is adequate. The Australian Noise Exposure Forecast System is a scientific measure of the aircraft noise exposure levels around aerodromes. It is the only Government endorsed measure that is used for land use planning and can also be used to give an indication of assessing average community response to aircraft noise.

How can we better ensure off-airport developments subject to state and local government planning regimes, such as tall buildings, do not compromise the safe and effective use of aviation infrastructure? How can future airport needs best be addressed, recognising the importance of airports as an element of the national economic infrastructure?

From a safety perspective the approval of developments in the vicinity of an airport resides largely with the Federal Government. That process is undertaken in consultation with airlines, CASA and Airservices. We receive numerous notifications of applications for development in and around airport environs, many of which impact on our departure procedures, often with negative payload consequences.

Despite the fact that development applications can be rejected on grounds of impact on safety and/or efficiency, many applications that are approved require airlines to modify operational procedures to their commercial detriment. With the onset of future technologies, including Required Navigation Performance (RNP), GLS and the design of curved approaches, the Government must develop a greater understanding of the impact that non-aeronautical development around an airport has on airline operations and ensure that the underlying principles of the legislation are reflected in permit decisions.

Efficient airspace management is essential for both airport operators and airlines. Obstacles infringing on airspace limit Virgin Blue's ability to optimise commercial payload. Feedback in relation to applications for developments has been provided and disregarded on numerous occasions.

To avoid this unsatisfactory situation in the future Virgin Blue would suggest a greater role for the regulator and the Office of Airspace Regulation (OAR) in assessing development applications in consultation with airline operators with clearly defined processes for all airport operators to ensure consistency in assessment processes. For such a process to be fully effective it would require the full support of the Department, CASA and Airservices and may require amendments to the current regulations.

What are the current and future pressure points in relation to airport capacity?

The single most important aviation infrastructure issue facing the nation, the aviation sector, downstream industries and the economy as a whole remains medium to long term airport capacity, with the most immediate challenge being Sydney airport. The challenge of the long term airport needs of Sydney has been the subject of numerous studies, inquiries and formal reviews over the last thirty years. In public policy and real political terms the aircraft movement capacity of Sydney is now fully defined and is progressively being exhausted. Passenger movements will increase at the airport only if airlines invest significantly in new higher capacity aircraft. Of itself, this will only provide temporary relief.

Sydney is at the heart of aviation activity in Australia. It is the lynchpin of domestic networks and receives around 50% of all foreign visitor arrivals to Australia. Its capacity is finite and is under demonstrable peak period pressure. After thirty years we are no closer to identifying the site for the second Sydney airport. We can only say with confidence that we do not have thirty more years to resolve this problem and that the second airport will not be built in the Sydney basin. We do not agree with predictions that Sydney airport has the capacity to meet growth over the next twenty years.

The growth in larger aircraft use and the impact they have on increasing separation in the air, with a subsequent impact on arrival and departure rates, is only adding to the pressure already existing on slots, runway and taxiway occupation times.

To rely on airlines to introduce larger aircraft to increase capacity using existing slots may seem an obvious solution to airports. However this simply moves all the cost risk to airlines, reducing fuel efficiency and increasing carbon emissions. It also exacerbates the infrastructure problems at terminal facilities, many of which were built 20 or more years ago and were not designed to receive the larger capacity aircraft now in service. In many cases a total redesign will be required to the terminals, aerobridges, aprons, fuelling and other service points. The necessary upgrades to these facilities will involve the very lengthy planning regime and will be in conflict with the policy objective of ensuring progressive infrastructure development to cope with continued growth.

Can the growing use by civil aviation of joint user or Defence owned airports be safely and effectively accommodated?

Virgin Blue believes that the current arrangements involving joint user facilities and the undertaking of RPT services by airlines at Defence owned airports has proven to be not only functional from an operational perspective, but of benefit to the economy of regional Australia.

To date such shared operations have been undertaken in a safe and sustainable manner and have, for some communities, guaranteed air services that might not have been available if dedicated civilian facilities had been required. The economic and social benefits derived from these services are significant and often are dependent on sustaining and growing competitive airline services at Defence facilities.

Virgin Blue acknowledges that operations undertaken through Defence owned airports (such as those through Williamstown) have presented certain operational challenges, including the provision of adequate fire fighting and rescue services and aerodrome air traffic control, as well as prescriptive movement caps. The Government will need to give careful consideration to the apparent conflict between the civilian use of Defence facilities and the growing community

dependence on the services provided by civilian airlines operating at Defence facilities. As growth inevitably occurs in civilian movements the pressure to accommodate both activities will increase.

The operation of these joint user facilities has also minimised the potential disruption and cost to the communities surrounding these facilities, when compared to the alternative of designing, developing and constructing another airport. Consideration should also be given to the economic benefits to these communities from the business and tourism growth that has been and continues to be associated with the commencement of competitive RPT services from airlines.

Access to essential services at military installations can and should be addressed through normal negotiations between the airport user and the Department of Defence, just as is the case when passenger and aircraft movement figures reach mandated trigger points at regional civilian airports.

How can the protection of the communities around airports from undue aircraft noise best be addressed as demand for services continues to grow?

The question as posed addresses one side of a complex issue. The broader question is the balance between legitimate community concern around aircraft noise and the need for airports to function as efficiently as possible in the national interest. Virgin Blue supports fully measures to ensure that communities are protected from undue aircraft noise and agrees that legitimate community concerns must be addressed in the public policy debate.

On the other side of this debate, the Australian aviation sector, including all major airports, functions under significant operational constraints directed at managing the impact of aircraft noise on communities around airports. The cost of these constraints has been the inefficient use of billions of dollars worth of nationally significant infrastructure, the cost of which is borne across the national economy. Despite the fact that the Australian aviation industry is investing tens of billions of dollars in the most environmentally friendly aircraft ever manufactured, we have no doubt that, in the current policy environment, the inefficiencies, cost and emission of greenhouse gases will simply increase, an outcome clearly at odds with the overall national interest.

Unlike some other key stakeholders, the aviation sector has not been a passive observer of this issue. Airport operators, airlines and aircraft manufacturers have made significant and highly expensive contributions to reducing the noise and environmental impact associated with their activities:

- Aircraft and engine manufacturers have made significant financial investments in research, development and the production and manufacture of significantly quieter aircraft and engines. That investment continues and the next generation of aircraft to be introduced to the market by Australian airline operators at a cost approaching \$30 billion will reduce again the noise foot print around Australian airports; and
- Airlines have worked closely with regulators and airspace managers to develop RNP approaches into and out of airports, reducing the overall noise footprint surrounding airports and directing aircraft over water, industrial or less populated areas.

Balancing the welfare benefits derived from constrained infrastructure against the cost of inefficient use of that infrastructure is complex and probably has not been fully matured in the political heat and complexity of this issue. The costs are not purely financial and economic but are measurable in terms of the community's ongoing contribution to climate change. The debate concerning the conjunction of these two streams is so important to the national interest we believe it should transcend narrow sectoral, political and bureaucratic concerns and form part of the national essential infrastructure debate currently being framed by the Government.

If Australia is to play its legitimate part in global markets, institutionalised infrastructure inefficiencies must be addressed, and addressed quickly. As with the challenges clearly evident

across the entire national transport infrastructure network, world best practice should be the norm not the exception. We are well short of that, a point clearly recognised by the commitment of the Government to infrastructure reform across the economy. Essential airport infrastructure must form part of that debate.

As the aviation industry grows and changes with the advent of low cost carriers and other innovative service providers, should changes be made to the regulatory framework for the pricing of airport services and monitoring of service quality? Is there sufficient transparency in the setting of charges for services at those airports that are not subject to price or quality of service monitoring?

As a fundamental principle, pricing for airport services should be equitable, transparent and reflect the cost of services provided. We do not believe the nature of the service, be it low cost or innovative, should be a relevant consideration in an equity based pricing structure. We have no objection to provision in airport pricing for reasonable returns on investment or provision for future legitimate capital works.

Airport operators provide a range of essential services to a broad client group, be it airlines, the travelling public, the air freight industry or the very large group of businesses which operate within the airport precinct. They operate from the seemingly natural position of power reserved for monopoly service providers. Their costs impact significantly on demand for air travel from the time travellers enter the airport car parks to the time the aircraft leaves the runway. The impact of inefficient infrastructure, whether it results from airport or airspace capacity or inefficiencies associated with the oversight of monopoly service delivery, is highly detrimental to the national interest. We believe strongly that the activities of all monopoly service providers warrant active scrutiny by competition regulators and that public policy should also be active rather than passive in this area. It is highly contestable that a "light handed" approach by regulators represents fully the public interest in the oversight of monopoly service providers.

These concerns are particularly relevant as airport operators undertake redevelopment projects to accommodate increased activity and to meet additional requirements imposed by regulatory authorities to deal not only with increased activity but also new regulatory activity. As discussed elsewhere in this submission we do not believe terminal usage fees should increase in order to accommodate capital expenditure dedicated to regulatory obligations where the broader community is the principal beneficiary of the regulatory activity.

As inexorably we approach the point where infrastructure fails to meet forecast demand, particularly during peak periods, there will be a need for greater scrutiny from regulatory authorities to ensure monopoly pricing is not used to suppress demand in order to avoid triggering new green-field infrastructure projects that might challenge the monopoly itself.

In this environment Virgin Blue's relationship with the monopoly airports is extremely and unnecessarily complex. That complexity adds considerably to the cost of doing business, particularly as there is little uniformity of practice across the sector and significant disparity between the requirements of the regulated and unregulated airports. Virgin Blue believes that Government should consider establishing a uniform set of guidelines to identify minimum requirements for transparency, disclosure, pricing formats and levels of consultation. This would assist the competition regulator to monitor airport operators against acceptable and uniform benchmarks and would provide airlines and airports with a single reference point, against which commercial activities could be transparently framed and benchmarked against broader industry activity, cost and experience.

We believe also, regardless of the level of direct scrutiny by the competition regulator - "light handed" or not - there would be considerable merit in being able to refer disputes with airports to commercial arbitration. The introduction of a commercial arbitration option for airports and airport users would constrain the misuse of market power by industry participants while emphasising that the primary method of determining terms and conditions for access to services provided by

airports would be through commercial negotiation. Commercial arbitration would address the persistent disinclination of airport operators to voluntarily lodge undertakings under Part IIIA of the Trade Practices Act as an alternative path to provide for the arbitration of disputes, despite this option being available for many years.

While a commercial arbitration model could establish the primacy, scope and form of commercial negotiations, we see it complementing an enhanced role for the competition regulator in an increasingly complex environment.

2.2 Air Traffic Management

How can Australia's air traffic management system best take advantage of new and emerging satellite navigation technologies?

New satellite navigation technologies such as GPS and ADS-B, have provided the aviation industry with a capability to significantly enhance navigational accuracy and surveillance. When combined with appropriate ATC procedures, the new technologies will deliver very significant cost and capacity benefits to the Australian aviation industry.

Technological innovation is often industry led. It is important that key stakeholders such as ASTRA and IATA, together with the Australian airlines and Government, form a collaborative working relationship to ensure that appropriate and timely changes are introduced to air traffic management systems in the national interest. This will enable industry to avoid cost penalties incurred through under-utilisation of expensive aircraft technology and inefficient air traffic management constraints imposed by use of legacy systems. Virgin Blue supports the concepts and strategies articulated in both the ICAO Asia/Pacific Regional Plan for the New CNS/ATM Systems and Air Traffic Management Strategic Plan Version 3.

Formalising the relationship between industry and Government agencies and fostering collaborative decision making will better ensure a successful transition from old to new technologies; the introduction of more fuel efficient and environmentally friendly approach and traffic management procedures, and support industry capital investment in innovative technology. Further, it will facilitate the amendments of Civil Aviation Regulations or Orders, procedure design, compliance requirements, education and training, rollout of new hardware and software upgrades. We have discussed elsewhere in this submission the need to urgently provide dedicated legal resources to the safety regulator.

What is the role of government in the take up of the new technologies?

Government's role should be to ensure that there are no obstacles inhibiting a rapid transition to new technology and that investment in new technology is supported and rewarded and encouraged in the national interest. In the deregulated Australian domestic aviation market, Government must ensure that the safety regulator and the various service providers are adequately skilled, funded and resourced to ensure that aviation systems required by the industry are safe and efficient. Again, this will require key specialists within the regulatory structures supported by adequate legislative drafting resources during the strategic planning, project development and implementation phases of any new concept.

To ease the burden on the regulatory agency we would encourage the establishment of a panel made up of senior industry and Government agency representatives empowered to make formal recommendations to the Minister to facilitate the delivery of the new projects.

Are there any regulatory impediments to maximising the use of new and emerging surveillance and navigation technology?

The introduction of new surveillance and navigation technology is essential to the long term efficiency of aviation services in Australia. The efficient and timely introduction of new technology is being frustrated by regulatory and resource constraints discussed elsewhere in this submission.

How do we enhance both air traffic management safety and capacity and efficiency?

Increasing capacity and improving efficiency are two of the greatest challenges for the industry.

Greater reliance upon GNSS navigation, increased surveillance through the use of ADS-B technology and more efficient terminal airspace procedures are all seen as critical components of a plan which is designed to deliver better safety, capacity and efficiency. RNAV technology provides the Air Traffic Control environment with a greater assurance and predictability of where an aircraft will track.

ADS-B surveillance provides the Air Traffic Controller and, in the case of "ADS-B In" equipped aircraft, the pilot, with visibility of conflicting traffic. The safety benefits of this technology are obvious and its commissioning must be accelerated.

Further efficiencies and capacity improvement can be achieved through the use of more efficient STARs and Runway aligned approach procedures. By linking STARs, which have been designed to deliver a constant descent profile to a runway aligned RNP approach, improvements in the terminal traffic management flow and airport capacity will be realised.

How effective have Australian regulatory agencies been in pro-actively assessing the Australian air traffic management system and setting clear risk-based safety and efficiency outcomes requirements, having regard to international developments?

Perceptions of the regulator's and the service provider's effectiveness as a proactive leader in areas such as assessing ATM systems and setting clear risk-based safety and efficiency outcomes are mixed. While various individuals from both organisations are represented on ICAO expert panels and have made significant contributions to ensure that Australia is well positioned to take advantage of emerging technology, the dedication and expertise of individuals must be supported more broadly, including with clearly articulated strategic policy direction.

Initiatives such as GNSS based navigation, ADS-B and Flexible Use Airspace are recent examples where concepts were developed and endorsed by industry only to have progress towards implementation severely constrained at critical times by regulatory resource challenges.

Are we effectively aligning airspace classifications and the level of services and facilities provided to reduce risk to passenger transport operations? Can we better identify risk factors?

Regular public transport operations should be afforded the highest level of protection to ensure passenger safety, including the highest level of airspace protection to the maximum extent possible.

The Office of Airspace Regulation must be empowered to instigate changes to airspace classification where growth or the introduction of high capacity aircraft on to a new route warrant such changes.

How can Australia's air traffic management development be aligned with broader policy considerations such as national security and the environment?

Efficient and safe air traffic management is essential infrastructure for the Australian aviation sector. Removal of infrastructure constraints in strategically important industries in the Australian economy is a high priority for the Government. We encourage the Government to ensure the future development of air traffic management is afforded a high priority in the broader development of infrastructure policy. Air traffic management development aligns with greenhouse mitigation strategies as a common objective to minimise fuel consumption. In regard to noise management, greater focus needs to be given to the potential and often contradictory trade-off between greenhouse gas emissions and noise mitigation.

What steps need to be taken to ensure the retention, training and future supply of skilled air traffic controllers and associated professionals?

The retention, training and future supply of skilled controllers and associated professionals is of concern and requires a two tiered approach. The immediate challenge is to ensure there are sufficient resources to meet current levels of demand. Virgin Blue would not have difficulty with the overseas recruitment of suitably qualified personnel. We view this as not dissimilar to the overseas recruitment of other industry professionals such as pilots and engineers or encouraging inward investment to the aviation sector.

In the longer term, to ensure certainty in the supply of key industry personnel, government, including the safety regulator and service providers, and industry must engage in a more structured and collaborative process which matches forecast demand for air services to investment in training and recruitment.

While attention to the supply side issues is important, recognition is also needed that improvements in skills, culture and work practices can also improve productivity and ensure that scarce resources are used in the most efficient manner. We believe these issues need also to be addressed in a collaborative, structured and formal manner.

What should a national air traffic management plan cover and who should be responsible for its development and implementation?

The immediate challenge is ensuring efficient use of air space. Air space management is becoming increasingly complex and inefficiencies already evident in the system will, if not addressed, have an increasingly negative impact of the delivery of cost effective aviation services. Technological advances already incorporated in commercial aircraft together with improved ground and satellite technology cannot be used efficiently or implemented because of bottlenecks in the regulatory systems. This must be addressed quickly.

Significant inefficiencies resulting from competition between Defence and civilian users for the use of scarce airspace, particularly on the east coast of Australia must also be addressed in the national interest, through greater cooperation, accelerated introduction of new technology and increased training of key personnel.

Dividends from improved air space management will include important environmental benefits as air space is used more efficiently. As the focus shifts increasingly to cost recovery for environmental impact, Government must ensure that inefficiencies of its making or within its control are not simply passed on to industry and consumers. Efficient use of infrastructure, airports and airspace, with all of the implicit benefits must be a high priority for Government and must be reflected in the development of the national air traffic management plan.

Section 3 – Aviation Safety

Overview

The challenges faced by the aviation sector over the next decade will be considerable and will see sustained pressure to break down barriers to trade and the global movement of investment capital and resources to support an industry already under extreme pressure, often from factors beyond its direct control. It is imperative that the Civil Aviation Safety Authority (CASA) remains a full partner with industry in ensuring Australia benefits totally from these reforms.

These issues go to the heart of the Government's commitment to ensuring a safe and commercially viable Australian aviation industry and the priority of ensuring strategic industries are supported by high level commitments to training, governance and access to appropriate infrastructure support.

The Civil Aviation Safety Authority (CASA) has supported the extensive micro-economic reform of the Australian aviation sector over the last decade. The Authority has maintained effective regulatory oversight of an industry during an extra-ordinary period of growth and change. Public confidence in airline safety oversight has been an essential component of the success of these reforms.

To accommodate these changes and to meet the challenges associated with surging demand for airline travel; the introduction of highly sophisticated new aircraft to the Australian register, and the introduction of new Australian carriers, CASA has engaged in a fundamental review of its own functions. Administrative reforms undertaken since 2003 have seen CASA become a more industry facing body, with processes and procedures that are transparent to industry and responsive to the needs of Australia's growing aviation industry. We support this reform process.

The Charter under which CASA operates has set a strategic framework for not only the administrative direction of the Authority but also its operational priorities and objectives. We support fully the over-arching principles set down in the Charter and do not believe changes to these fundamental principles would be of benefit to key stakeholders. The current governance structure under which CASA operates is designed to ensure that the appropriate personnel and structures are in place to progress the implementation of Safety Management Systems (SMS) and the Regulatory Reform Program (RRP) in an efficient and effective manner. Whilst CASA is consolidating its new organisational structure and the manner in which it engages with industry, we believe it remains committed to working effectively and efficiently with industry.

We believe CASA would be assisted in the integration and development of new organisational structures if it, like many similar organisations, undertook formal certification against established ISO standards. This would enable progress to be assessed against a transparent external audit and would encourage the present reform process to be implemented throughout the organisation in a systematic and orderly fashion.

Whilst the restructure of CASA has been beneficial in an overall sense and will provide long term structural certainty together with industry and public confidence, regulatory reform needs to keep pace with the structural reforms. To ensure the ongoing effectiveness of the administrative reforms undertaken since 2003, we encourage CASA to adopt, address and invest in the issues identified in the recently published *An Assessment of Trends and Risk Factors in Passenger Air Transport* report which correctly identifies the strategic issues requiring close monitoring and future planning.

We understand the Government is considering appointing a Board to oversight the future management and operations of CASA. In such an eventuality, it is essential Board members possess experience and have demonstrated expertise relevant to the complexity of the challenges faced by the aviation sector and the imperative of maintaining the highest levels of public confidence in safety oversight. The expertise of the Board must extend to its capacity to ensure

the Authority remains focussed on implementing SMS and delivering on the RRP. It is equally important that appointees are capable of ensuring that CASA remains an industry facing body.

In an environment of increasing complexity compounded by sustained industry growth and demands on limited regulatory resources, it is essential that CASA remains focused on core tasks such as regulatory oversight and policy and strategic development. In such an environment, these core tasks must be supported by ensuring the Authority can develop and implement essential legislative reforms in a timely fashion and effectively draw down from world best practice in developing the future legislative framework for the Australian industry. To assist the Board and to enable the senior management of CASA to focus on the timely implementation of SMS and the RRP, we believe there is merit in establishing a dedicated legislation drafting unit within CASA to deal with existing blockages in the legislative drafting program. This unit might also be supported by an independent expert advisory panel to advise the Board on how world best practice might be fast tracked into Australian regulatory practice.

The Australian Aviation sector plays an essential role in supporting the Australian economy and regional development. The regulatory framework provides the environment in which it operates and plays a crucial role in ensuring that it can achieve this efficiently and safely.

The current regulatory environment has evolved over many years and is cumbersome, and convoluted. It inhibits operators and the regulator in meeting their respective objectives. The complexity of this three tiered legislation (Act, Regulations and CASRs) is further compounded by the interaction with transport security legislation, state based HSE legislation, the Commonwealth Disability Discrimination act and International conventions.

Virgin Blue has been on record numerous times supporting the regulatory reform programs that have been on-going in Australia for the past two decades. The intent of these reforms, to provide Australia with modern outcomes based legislation, is correct. The rate of change is however unacceptably slow and it is important to understand the barriers and constraints to progress in this regulatory reform activity. In our view the structure of the regulations and the Act must be reviewed and an absolute commitment given to providing the appropriate resources to the RRP to ensure that it can meet its objectives.

3.1 Safety Regulation and Regulatory Reform

Are there ways in which the approach to Safety Management Systems could be enhanced?

We support fully the intention of CASA to give increased priority to the introduction of Safety Management Systems (SMS) into passenger carrying operations and encourage CASA to actively prioritise the further integration of SMS into its own administrative framework. Virgin Blue believes that the adoption of such fundamental principles will further increase the effectiveness of the administrative reforms undertaken since 2003 while at the same time strengthening the relationship of CASA with the broader industry.

In addition to the continued active adoption of SMS, Virgin Blue believes that CASA could further strengthen its relations with industry by drawing on the experience and expertise of the high capacity RPT operators in Australia which have invested significant resources in implementing and developing SMS to drive positive safety outcomes.

The CASA CEO and senior CASA management must continue to meet regularly with AOC CEOs to provide them with educational material (eg 'Safety Management and the CEO', issued at the end of 2007). The aim should be to continue to educate these individuals and then the relevant organisation as to their legal obligations (especially Section 28BE of the *Civil Aviation Act*) with respect to management responsibility for safety issues. These discussions and the material also emphasise the commercial implications of public confidence in safety management systems.

Virgin Blue fully supports this program and believes it could be further enhanced through the adoption of a program involving the CEO and senior management of CASA meeting regularly as a group with the senior management of each airline to report progress on key projects, changes in legislation and/or other emerging issues that might impact on either airline operations or have a cost implication to the industry.

Should the governance arrangements for CASA be strengthened to better support the role of the safety regulator?

We support the governance arrangements set down in the CASA CEO's Mandate. These arrangements have been central to the change management program and have supported CASA through a period of consolidation in its relations with industry. It is considered vital that if any review of the existing governance arrangements is contemplated it should not stop the regulatory reform program or unnecessarily affect the organisational structure. The Government must commit to the regulatory reform program (RRP) and ensure the CEO and Board support these initiatives.

Virgin Blue notes that the Government's policy calls for the reintroduction of a Board to oversight CASA. There is merit in this policy. However, it is imperative that Board members possess expertise and experience relevant to the stewardship of CASA in the context of the challenges that it faces. This is in particular regard to the regulatory reform program and the overall management of this by the Standards Consultative Committee.

How can CASA strengthen the way it relates to industry while meeting the community expectations of a firm regulator?

CASA must provide greater transparency of process to ensure that there is a targeted focus of punitive action. This action should be a last resort and only apply to organisations that do not or cannot maintain systems of continual improvement within a SMS.

Targeted focus is recommended on the following areas:

- Reduction in duplication in the issuance of regulatory approvals in support of operator activity
- Regulatory change programs to ensure outcomes based legislation is enacted, which will require dedicated legal drafting resources.

How can the Australian Government and industry ensure CASA completes its long running regulatory reform process as soon as possible, to give clarity to industry and to clear the way for new approaches to meeting the regulatory challenge?

Ultimately the interaction between CASA and industry is primarily based around regulatory and operational functions. Completion of the RRP must be a high priority for the Government. To achieve this outcome CASA should actively prioritise the RRP and allocate all necessary resources (or, as discussed above, make representation to Government for additional resources) to ensure the timely completion of all RRP projects. To further assist the timely conclusion of the RRP we would encourage CASA to reconstitute and adequately resource the Standards Consultative Committee so that more timely redrafting, promulgation and implementation of the new Rules Sets can be achieved.

A clear mandate that the RRP must continue and be completed in a timely fashion must come from the Minister to both the Board (if established) and the CEO of CASA. This needs to be supported by a direct prioritisation of resources for continuation of RRP projects. Where necessary, industry should be encouraged to supply resources to assist in the development of the new rule parts to ensure they are valid and meaningful to industry when promulgated.

The Government also needs to review the process by which new rules are drafted by the Office of Legal Drafting. The Government must give the right priority to the new rule parts to ensure they are released in a timely fashion. Consideration should be given to the creation of a dedicated team of drafters responsible only for new CASA rule parts. Focus must be on the maintenance of current operations and the impact that sporadic amendment processes will have. Ideally related rule parts should be issued in sequence to allow for a controlled transition by AOC holders. This is also in line with current risk management methodology.

CASA and its predecessor have been attempting to modernise and rewrite the civil aviation safety requirements and regulatory framework for at least two decades. This process has been frustrated by a range of technical and legal impediments in Australia which seem to have been dealt with more expediently in other jurisdictions around the world.

While not singularly the cause for these delays competing priorities in the Attorney General's Department have meant that the aviation legislation drafting has taken a 'back seat'.

The economic impacts on the aviation industry and indeed CASA, in the stop start uncertainty that is the hallmark of the process to date, are undoubtedly huge but hidden.

In addition, a review of the current legislation and practice, including the *Civil Aviation Act* is in order. Presently the Act is primarily focused on what CASA should and should not do – the industry requirements are almost incidental to what appears to be the prime purpose of the Act. The Act should spell out the responsibilities of all the participants in aviation, including the Minister's role.

Regulatory reform, to be fully effective, must also be supported with resources and training within CASA to assist implementation and to ensure that the transition period is managed efficiently and expeditiously.

What changes could be made to improve how Australia's aviation safety agencies work together?

We support the independent role played by the Australian Transport Safety Bureau (ATSB) in maintaining and improving transport safety and public confidence in the aviation sector through independent investigation; analysis and research, and fostering safety awareness. We endorse the underlying concept that the role of the ATSB is to investigate and make safety recommendations rather than apportioning blame or providing a means of determining liability. We note that the independent and non-punitive safety investigation agency concept has been adopted internationally and has proven to be a robust and valid method of operation.

The concept of an independent agency, such as ATSB, monitoring the activities of regulatory agencies and service providers is supported and is regarded as an essential component of the safety oversight machinery of Government. These processes should be allowed to continue in the environment envisaged by the Miller Report. In the prevailing regulatory climate, there is a perception that the regulatory style is punitive in nature. We support a more open system of reporting of incidents, based on trust that confidential reporting will be supported in a non-punitive manner.

In order to ensure that the safety regulatory agencies operate with the full confidence of the public and industry, Government must ensure that lines of responsibility are clearly defined and that the interaction between agencies supports the public and national interest. Care must be taken to ensure that internal Government processes do not cause excessive delay in developing coherent safety standards and regulations. On occasions, the dynamics of the relationship between various agencies may require intervention from the Government to ensure outcomes reflect the national interest. This process could be supported by the establishment of an industry consultative forum through which industry can assist in informing the Government on this and related issues as they emerge.

What steps can the aviation industry as a whole take to ensure it maintains safety standards as it grows and diversifies?

We support the development and maintenance of close and co-operative working relations between all stakeholders in the aviation sector. Ideally, these relationships should reflect the individual expertise, experience and qualifications of each of the stakeholders and ensure that collective resources are focused in a manner that addresses the emerging challenges associated with scarce resources, increasing workloads and complexity in the aviation sector. Australia is not so rich in resources that it can ignore the national interest benefits that come from collaborative stakeholder relations and shared responsibilities. This is particularly relevant as CASA and industry move to adopt safety outcomes-based legislation.

As a part of broader initiatives, consideration could be given to the introduction of an industry wide SMS that captures de-identified data from all operators about risks or incidents that have occurred in the conduct of their operations. The scope of this would be far broader than the current data capture by the ATSB and allow for operators to research and review known hazards.

What steps should be taken to ensure Australia maintains a high standard of aviation safety in the context of global developments?

Given the global challenges facing the industry Australia must use all means available to it to ensure that safety standards are not compromised and remain as world best practice. No single solution will effectively achieve these objectives. The regulators must operate in a full cooperative partnership with industry as discussed elsewhere in this submission. The commitment to safety must be advanced in our bilateral air services agreement; through bilateral air safety agreements and in the multilateral fora. We must provide tangible support to ICAO in the pursuit of its objectives. We need to encourage IOSA as a core standard for airlines operating to and from Australia. We must ensure that micro-economic reform does not lead to Australia becoming a flag of convenience for foreign airlines. We must ensure that all resources available to government, including those of the industry itself, are focused on maximising aviation safety and that mechanisms are available to ensure that the very best international experience and industry practice can be accommodated seamlessly and without undue delay into Australian regulatory practice in the national interest.

What issues should a 21st century aviation regulator be focussed on?

The recently completed "Emerging Risks" report prepared for the CEO of CASA identifies strengthening global demand; environmental change awareness; improvements in aircraft, systems and technology, and international instability and related security challenges as high level future issues for regulators. Virgin Blue would add the immense challenges faced by the industry triggered by the oil crisis to this list. Risk scenarios are far from static and regulators will be best able to manage an uncertain future agenda if their own structures and practices are sufficiently flexible to meet with rapidly changing circumstances.

At its core the principle challenge will remain successful management of safety systems outcomes and ensuring that productivity and access to new technology is sufficient to deliver safety outcomes that ensure public confidence in the regulator.

Is self-administration a key factor in the growth of recreational aviation? Is there more scope for some parts of the industry to self-administer? What are the opportunities and risks for the industry, regulators and the community in greater 'self-administration'?

There is a fundamental difference between self-administration and self-regulation. A self-administered body must still be held accountable for the privileges of this status. CASA must

continue to have internal mechanisms that monitor and report on the discharging of these functions. As a minimum the foregoing should be met through:

- consistency of rules and standards applicable to self-administered activities; and
- accreditation of self-administering organisations with competency standards detailed with respect to airworthiness and flight operations activity.

Section 4 – Customer and Consumer Protection

Overview

The airline industry is a high cost, low margin and fiercely competitive industry. In this environment efficiency of both commercial operations and government regulation is paramount so as to deliver maximum choice at lowest cost, while at the same time ensuring the highest safety standards and optimal environmental outcomes are achieved. This is an area of significant tension. Regulation of noise can conflict with optimal climate change outcomes. Enhancing passenger experience can interfere with critical safety outcomes. These are all issues which are highly emotive, and at the same time critical to the wellbeing and viability of our community. It is essential that government and industry work together to lead a rational and informed debate to deliver a balanced and effective outcome across these areas.

4.1 Aviation emissions and Climate Change

What practical steps can the aviation industry take right now to reduce greenhouse gas emissions? Are carbon offset schemes enough?

Airlines have a history of innovation in reducing fuel consumption and continue to make advances in this area. Technology and operations are the main focus areas – airlines are working with manufacturers to improve engine efficiency and develop new technologies as well as low carbon fuels to drive them. Operational focus has been on optimising emissions through improving flight performance. Right now the industry and government must continue to focus on improving air traffic management as a relatively low cost method of significantly improving efficiency and reducing emissions. Carbon offset schemes cannot operate in isolation but should be seen as a part of an integrated solution with the priority on reducing direct emissions.

What measures should the aviation industry be taking in the short-medium term to reduce emissions, such as clean engine technology and clean aviation fuels?

Australian airlines have a limited role in influencing clean engine technology and must pursue this with manufacturers. Airlines along with Government must encourage research and development into alternative renewable aviation fuels industry for the region. The Government needs to encourage this R&D by providing appropriate incentives and funding.

Measures implemented must also take into account the impact of non-CO₂ emissions that may also contribute to climate change. As a priority the government must work with relevant industry bodies to undertake research into quantifying these impacts in the Australian context. Some of the actions that can be taken to limit these impacts are not complementary to actions to reduce CO₂ emissions and therefore the issue must be approached holistically.

Given the international nature of aviation, what opportunities are there to minimise greenhouse emissions and trade emission permits through emission trading schemes?

This is well covered domestically through the proposed emissions trading scheme to be introduced in 2010. The proposed cap and trade scheme provides an incentive to airlines to reduce emissions at least cost.

Internationally the Australian Government and industry must continue to work with and support ICAO in its task to implement a framework to address emissions from international aviation.

It is important that the range of credible permit sources are maximised including eligible Kyoto credits (AAUs, ERUs, CERs) as well as certified domestic offset credits from non-covered sectors.

The consideration and implementation of any emission trading schemes should also take into account the complex and often punitive taxation issues associated with them. Of particular concern are:

- the eligibility to claim income tax deductions. In this regard, consideration should be given to extending the deductibility criteria of “taxable purpose” and “profit making purpose” to include emission reduction activities;
- accelerating tax depreciation claims for carbon offset projects;
- treating the emissions trading schemes as GST-free; and
- removing state-based taxes (stamp duties) on carbon trading arrangements.

4.2 Aircraft Noise

Could the ANEF system be improved or be supplemented by other planning tools to better explain the impact of aircraft noise? Should State and local governments play a greater role in aircraft noise management? What should be the responsibilities of airports?

The ANEF system is a robust tool for land-use planning purposes and is not designed for community communication purposes. Virgin Blue encourages the use of methods such as the Transparent Noise Information Package (TNIP) to enable users to rapidly interrogate aircraft activity and noise databases and to produce transparent noise descriptors.

State and Local Governments continue to be involved in land-use planning issues related to aircraft noise. They are also involved in the communication to the community of noise related information to various degrees. While their role in land use planning is adequate, it is recommended that they take a greater role in communicating issues related to aircraft noise to communities as well as supporting airports in facilitating interaction between the various stakeholders.

Should emphasis be given to airport/community partnership approaches, for example, based on locally negotiated agreements rather than generic legislative approaches?

A number of ports currently operate using a partnership approach by the various stakeholders coordinated by the airport authority. These fora allow communities to input their views and allow them to be “included” in the management process. Both approaches are required in parallel to achieve best outcomes.

Can techniques for sharing information on aircraft noise impact be further developed to improve the supply of information to potential property purchasers and other affected parties?

Virgin Blue supports any measures and programs that make information pertaining to potential aircraft-related noise available to potential property purchasers.

We believe the Government needs to also send a clear message to potential purchasers of land and houses in the vicinity of airports, that the Government will not intervene or impose restrictions on airports or airport users because of noise generated through the normal operation and growth activities of the airport.

Virgin Blue encourages the use of methods such as the Transparent Noise Information Package (TNIP) to enable people to rapidly interrogate aircraft activity and noise databases and to produce transparent noise descriptors.

Which airports in Australia need to remain curfew free and under what conditions? Can operations at airports be better managed to ensure the community is protected while at the same time providing for night time access?

Curfews currently exist at the following airports impacting on Virgin Blue operations:

- Sydney
- Adelaide
- Gold Coast

Any dilution of the current curfew arrangements at these locations would be a highly contested and emotive issue resulting in significant implications for industry and for government. However, future technologies such as Required Navigation Performance (*RNP*) approaches provide for significant improvements in the accuracy of flight and provides for more narrow corridors or flight paths to mitigate the noise impact to residents in the vicinity of these airports. RNP procedures at Canberra are an example of this.

Access to the above airports and others should be based on uniform and consistent noise measuring data to remove emotion from the debate. Virgin Blue operates Chapter 4 compliant aircraft. In the future engine manufacturers are likely to provide further enhancements and technologies that will ensure future jet propelled aircraft will be quieter still. It is important to ensure that curfew restrictions keep pace with technology so as to incentivise the development and use of noise reducing technologies. Improved access to the above airports during the existing curfew times should be available as improvements are realised in flight tracking and engine design and emissions.

It is unfortunate that high density development continues to encroach the surrounds of airports, resulting in the affected residents lobbying for the imposition of curfews at other locations. Virgin Blue is strongly of the view that additional curfews are not required at other locations and that there should be no further restrictions at the existing curfewed airports. It is the responsibility of Government and the airport operators to ensure that an adequate buffer exists between the airport and residential areas, so as to protect the status quo for noise impact and so that no further residential development occurs within the buffer zone.

How effective are the current noise enquiry and noise complaint services? Are there more effective ways to deal with people's complaints and requests for information? Can the services be better provided?

The current services provided are an effective conduit for the receipt and analysis of noise complaints. It is important that all complaints/enquiries are channelled so that accurate analysis is undertaken. Virgin Blue recommends that information on the unit be more readily available so as to enable maximum use.

4.3 Customer Protection

Are existing consumer protections and airline procedures adequate in dealing with these challenges? Is it possible to improve passengers' travel experiences without adding unnecessary costs to airlines that would inevitably need to be passed on to all passengers? How can airlines ensure passengers are appropriately informed about restrictions? Furthermore, are existing airline terms and conditions reasonable?

The deregulation of the Australian domestic aviation industry has produced a fiercely competitive market for domestic air travel. Consumers have been the beneficiary through dramatic reductions in the cost of travel and significant improvements in the choices available to them over the last eight years. Consumers have endorsed this new competitive environment, with 40% more Australians flying domestically than in 2001. This is an outstanding example of the benefits a deregulated and competitive market can deliver.

While this increase in passenger traffic and airline competition will inevitably lead to an increase in the number of complaints in absolute terms, Virgin Blue submits that the overwhelming experience of passengers in relative terms is vastly improved. Passengers now have an array of products available to them allowing them to trade price for the level of service offered. In those circumstances where passengers have in fact been misled or where an airline has not delivered on its promise, recourse is available. Australia has a sophisticated and extensive body of consumer protection legislation at both the State and domestic level, as well as an active network of consumer protection bodies and advocates.

Virgin Blue has differentiated itself in the market place as a champion of the consumer. Its fare rules and terms and conditions of carriage are clear, in plain English and are easily accessible on the Virgin Blue website. It is a requirement of Virgin Blue that the guest actively accepts the terms and conditions before a booking can proceed.

4.4 Disability Standards

Are the current Transport Standards adequate to ensure the removal of discrimination from air travel?

The Transport Standards are an important part of the regulatory framework relating to the application of anti-discrimination obligations in the aviation industry. What that regulatory framework fails to address however in a sufficient or meaningful way is what happens when anti-discrimination obligations and safety obligations conflict. In Virgin Blue's opinion this legislative anomaly needs to be fixed.

For example, as an operator, Virgin Blue must comply with a range of Civil Aviation Safety laws. As an employer, Virgin Blue must also comply with a range of workplace health and safety laws. Quite appropriately, both of these sets of laws impose harsh penalties on Virgin Blue and its officers (and potentially even employees) if Virgin Blue does not comply with these laws. In some circumstances, these penalties can include periods of imprisonment. There are circumstances however where compliance with these safety laws can lead to liability under anti-discrimination laws. This is untenable.

In the circumstances, there is a pressing need for the law in this area to be settled. The aviation industry and the disability community need clarity around how it is that anti-discrimination obligations and safety obligations operate together, and more importantly, what happens if these two sets of laws conflict. Virgin Blue has prepared detailed submissions about these matters. Copies of these submissions can be made available.

Are there recommendations arising from the recent Transport Standards Review that might be implemented to improve services for people with a disability?

The written submission made by Virgin Blue to the recent Transport Standards Review contain a detailed analysis of the obligations placed on airline operators by safety regulators and how these obligations conflict with anti-discrimination obligations. In Virgin Blue's opinion, the Transport Standards Review fails to comprehend that background and ought to be reviewed in that context.

Are current complaint and compliance mechanisms effective?

In Virgin Blue's opinion, the current complaint and compliance mechanisms are effective. However, as noted above, the conflict in the underlying legislative regimes for safety and anti-discrimination requires resolution.

4.5 Compensation Arrangements in the Event of an Accident

Are Australia's domestic arrangements for passenger and baggage/cargo liability appropriate in the context of international developments, including the Montreal Convention? Is there a better system or model for compensating people?

Australia's domestic arrangements for passenger and baggage/cargo liability are, broadly speaking, appropriate. From an operator's perspective, the Australian arrangements would however benefit from a review in light of the New Zealand arrangements, particularly the "no fault" aspect of the New Zealand system.

Are the minimum insurance standards appropriate? Should the system be extended to require insurance for third party surface damage? Does the aviation industry face any difficulties in accessing appropriate levels of insurance to cover their potential liabilities?

The minimum insurance standards in the industry are appropriate. Amendment of those standards to require insurance for third party surface damage would have little, if any, impact on Virgin Blue. The insurance arrangements Virgin Blue has in place already insure against that risk.

Is the voluntary Family Assistance Code an appropriate measure to ensure airlines meet their responsibilities in the event of an aviation accident and to what extent are airlines complying with the Code?

While Virgin Blue believes that the voluntary family assistance code that is currently in place in Australia is an appropriate measure for airlines to meet their responsibilities in the event of an aviation accident, it does not by its voluntary nature ensure that all airlines operating within Australian airspace will necessarily comply with the code.

Consideration might be given to introducing the more formal arrangements in place in the US which clearly articulate the roles and responsibilities for provision of family assistance in the event of an aviation disaster. Under Australia's current regulatory framework the requirement for airlines to provide humanitarian assistance is defined by the voluntary code. There is no mandated requirement for either Australian or international airlines to meet this standard.

As a result there is a lack of clarity surrounding the roles and responsibilities of airlines and the various Federal, State and Local Government agencies. This was clearly identified during the high level Government exercise, Big Splash – December 2006, which highlighted the confusion by Government and associated agencies in the role of the airline and in how family assistance is coordinated and executed. Despite these issues being identified during this exercise, they still remain unaddressed.

The Virgin Blue group has a family assistance program, which meets the US Family Assistance legislative requirements. Virgin Blue believes that the Australian Government should consider introducing a family assistance code that is mandated through legislation, similar to that is in place in the US through their *Aviation Disaster Family Assistance Act 1996* and the *Foreign Air Carrier Family Support Act 1997*.

This would place in law the requirement for:

- clearly defined responsibilities of airlines and Government agencies in response to an aviation crash involving a significant number of passenger fatalities and/or injuries ;
- a single Government agency to oversee the response by the airline and coordinate a whole-of-Government response at all levels (equivalent to the role played by the US NTSB);

- airlines to have a Family Assistance Program, so that all airlines flying within Australia have a standardised and legislated obligation to meet the needs of passengers and families; and
- clearly defined rights for those directly affected by an aviation transportation disaster.

Section 5 – Aviation Security

Overview

We share the Government's commitment to ensuring aviation security arrangements meet community expectations and contemporary international standards. We understand fully the potentially highly negative impact security related incidents could have on public confidence, the aviation sector and downstream industries. The current arrangements have been developed with direct high level Government involvement in the overarching policy and operational framework.

Unlike the far-reaching micro-economic reforms which evolved progressively over two decades as a subset of a much broader reform of the whole of the Australian economy, contemporary aviation security policy and practice is based largely on a set of extra-ordinary circumstances played out over a very short time frame. While much has been achieved in very difficult and challenging circumstances, we believe there is merit in now revisiting a number of the core elements and tenets of the current policy with the benefit of experience and hindsight.

Cost recovery for aviation security activities is of concern. As we look forward in an industry burdened with its own overwhelming cost challenges it is increasingly clear that the aviation sector cannot continue to carry the cost burden of activities where the community as a whole is the principal beneficiary. It appears not to be fully understood by policy planners that these costs, which are not of the industry's making, cannot simply be passed on to consumers without impacting demand. Equally, the practice of using the sector to collect taxes and charges on behalf of Government, even if collection is cost neutral, adds to the cost of travel and the face value of tickets. Market elasticities are such that these costs and charges impact negatively on demand and limit the ability of the industry to both make reasonable returns on investment and to stimulate new demand in its own interest and the interest of downstream industries and the economy as a whole.

There can be little justification for imposing costs without equity on the aviation industry in the expectation that the travelling public will simply absorb the tariff increase and that there will be no impact on demand or no down stream negative consequences in the wider economy. We believe there is merit in referring this and other aviation cost recovery issues to the Henry review for more detailed analysis.

Security threats to the nation as a whole are in large part assessed against risk-based criteria and supported where necessary with appropriate infrastructure. We do not believe the aviation sector warrants a different approach. To a large degree that view is reflected in the current arrangements which differentiate between measures applied on a location specific basis and which are assessed against credible risk models and intelligence information. We support this measured approach to the provision of aviation security in Australia.

It is important to ensure that the future direction of security policy, infrastructure and operational development remains flexible, adaptable and encourages international harmonisation of security standards and measures, where appropriate. Without diminishing Australia's commitment to aviation security a measured case can be made for different security standards tailored to Australia's specific circumstances rather than simply importing international standards which might be more appropriate to other jurisdictions with different threat levels.

What can be done by Government and industry to achieve greater international harmonisation of aviation security measures?

Australia, industry and government, must continue to engage with the international community to ensure that our ongoing security arrangements meet national interest criteria and world best practice. We must ensure access to high level international security intelligence remains a national priority and that co-ordination between all relevant Australian security agencies is maintained at the highest levels. We must ensure that our dialogue with the international

community on policy, infrastructure and operational systems is also conducted at the highest appropriate level and with guaranteed access to the very best contemporary standards and practice. From this base the Government can develop regulatory practice to meet our specific needs. We believe a measured and deliberate risk and needs based approach is structurally sound. Harmonisation, where it serves Australia's national interest, would also be of benefit, but not as the sole driver of Australian security policy.

Should aviation security remain the key focus for Government and industry?

We support the Government's focus on aviation security. The demonstrable risk to aviation from international terrorism and potential risk derived from a number of domestic sources with known risk profiles cannot be ignored. The effect on industry, public confidence and dependent sectors of the economy warrant appropriate attention and intervention from Government and industry.

Virgin Blue believes that it is appropriate and timely for Government to re-examine its approach to security matters. This needs to be done in the context of ensuring that all existing, and any new, measures are considered in light of the Government's publicly stated policy of implementing and operating an intelligence driven, risk-based, outcomes focussed, fair, transparent and timely aviation security framework. Such assessments should be consistent, standardised and consist of a transparent cost benefit analysis and cost impact statement before any future measures are imposed upon the aviation or any other transport sector. We would also encourage the Government to ensure that there is no overlap or conflict between security and CASA legislation.

Is the current charging regime for provision of security screening services equitable between major metropolitan airports and regional airports? Should alternative arrangements be put in place? Whether current passenger security screening requirements based around jet aircraft should be extended to non-jet aircraft of similar capacity, speed and weight?

The aviation sector is rapidly changing. Long term forecasting predicts that aviation activity in Australia will grow on average by around five percent per annum over the next decade and will double within the next fifteen years. Implicit in this will be significant pressure on security infrastructure and costs as activity increases. This burden will be compounded as advanced security technology inevitably is developed and introduced. The current cost of the security screening and related infrastructure works required to be undertaken prior to the commencement of jet services at new "jet" ports is in excess of five times the cost of delivering such screening services at a major capital ports. We reasonably expect those costs also to increase over time, inevitably placing greater pressure on developing and maintaining air services to regional Australia.

It is simply implausible that the cost burden associated with changes of that magnitude can continue to be passed onto the aviation sector, particularly as the community at large will remain the principal beneficiary of a secure aviation sector. If the Government is not proactive in addressing anomalies currently present within the passenger and baggage screening security framework these escalating costs, may lead to the cost of air travel for rural and regional locations becoming prohibitively expensive.

Network expansion of jet services into smaller regional destinations and the introduction of highly efficient smaller jet aircraft to the Australian market have highlighted a number of anomalies in security arrangements at regional airports. Under the current regulatory regime different security arrangements are applied to jet RPT services to any airport, irrespective of location, threat level, aircraft capacity, speed and/or weight. In a risk based model, properly applied, we do not believe legitimate security distinctions can be made simply on the basis that the power delivery system is different from one aircraft to another. Nor do we believe that security measures should be determined solely by airport passenger throughput. Taken together these measures appear to be at odds with the publicly stated policy of implementing and operating an intelligence driven, risk-based, outcomes focussed, fair, transparent and timely aviation security framework.

Virgin Blue further articulated its position on this and related matters in its submission to the Office of Transport Security's Industry Discussion Paper titled *Security Policy Settings Applied to Passengers and Aircraft* issued in February 2008.

Could industry manage its costs more effectively?

The major airline operators in Australia are all public companies under the direct and active supervision of management Boards and shareholder scrutiny. The Australian domestic aviation market is a highly transparent, contested and competitive commercial environment. There is very little in the cost profile of Australian airlines that has not been exhaustively reviewed and the current circumstances of the Australian market dictate the highest levels of efficiency in the delivery of their services. Inefficiencies clearly visible in the sector are not generally attributed to airline operators. If there are suggestions of inefficiency in delivery of services imposed on the sector such as the collection of Government taxes and charges or the provision of infrastructure to meet broader community obligations, Virgin Blue would have no objection to these functions reverting to Government, where rightfully they should rest. The removal of these taxes and charges from the sector would stimulate demand for air services and domestic tourism, particularly in regional and rural communities.

It is important to note that the resources and equipment used for screening passengers, including any necessary infrastructure, ongoing consumables and related costs are all borne by industry funded screening authorities despite the fact that the general community is the principal beneficiary of these services.

This cost is then recovered directly from guests. Considering economic factors, potential industry and guest growth numbers, it is a major concern that increased security costs and the inevitable growth in airport landing charges will, if levied exclusively on airline operators, make airline operations at some regional and smaller airports unaffordable.

Passenger screening fees associated with operations in regional Australia (dependant upon aircraft type and the subsequent introduction of specific security screening measures), which are in a lower level threat environment, are now starting to play a significant part in business planning decisions and whether or not some operators commence services to support regional Australia.

Therefore Virgin Blue would contend, that rather than seeking a response as to whether the aviation industry is able to manage its costs more effectively, the Government should closely examine the impacts and discrepancies/anomalies within the existing aviation security model and endeavour to deliver an aviation security framework that is consistent with the Government's publicly stated policy of implementing and operating an intelligence driven, risk-based, outcomes focussed, fair, transparent and timely security framework.

Virgin Blue also recommends that the Government give consideration to a detailed examination of the operational, organisational and financial parameters of the current security screening model in Australia and compare and contrast that model with other successful models operating in New Zealand and Canada. Virgin Blue believes there may well be benefit in adopting such a model in so far as delivering a consistent and standardised passenger and baggage screening regime that fundamentally is equitable and transparent in allocating security screening costs.

Should we introduce new technologies for passenger screening that can improve processes even if they are more invasive or costly? Should we expect the same security technology standards from all airports regardless of location, the traffic levels at the airport, and the costs?

Technology plays an important role in Australia's aviation security regime. Passenger and checked baggage screening provides a degree of confidence to the travelling public that their safety and security are a priority. Virgin Blue supports technological change where appropriate.

Technological obsolescence is becoming a significant challenge for industry. Typical budgetary and planning cycles are focussed on 2-3 year time zones; current technology such as x-ray has an estimated life span of 5-8 years. We should anticipate the rapid development of new generation technology and that its introduction, together with the redundancy of existing technology, will be costly and disruptive to industry. The selection and introduction of new technology will require a highly coordinated approach from Government and industry to ensure best standards, cost minimisation and simultaneous introduction across all screening authorities.

Biometrics are an effective way to manage access arrangements at airports and an improvement on current practice. Is there value in introducing biometrics into Australia's airports for people working there?

Access arrangements at Australian airports are complex and differ from airport to airport. As an airline operator with a large numbers of flight and cabin crew, the issuance of multiple access cards for multiple airports is confusing, expensive and less than ideal from a security outcomes perspective.

Virgin Blue would support the introduction of a Government backed biometric access control framework across all security controlled airports. Such a system would offer many advantages including improved security outcomes, portability for crews and economy of scale relating to cost. The linkage of biometric access control rights to identity verification is also inevitable as technology develops and reduces in cost.

How can we improve/optimize passenger screening arrangements within Australia? Should special arrangements be put in place to enable frequent travellers who understand security requirements, often business travellers, to move through passenger screening more quickly? What type of special arrangements, if any, would be appropriate?

Forecast growth in airline activity in Australia will place significant pressure on existing security infrastructure. Physical constraints at Australian airports are already visible in a number of areas, such as security screening and CIQ clearance lines for international passengers. It should be anticipated that airport operators will need to significantly adjust their infrastructure to accommodate future shifts in demand. Virgin Blue would be deeply concerned if charges to accommodate additional community based regulatory functions were imposed on the airline industry by monopoly airport service providers in the form of increased usage charges.

The respect for a passenger's time is a critical component of a successful travel journey. Whilst most screening authorities place an importance on passenger processing, it is also important to ensure that passengers are screened and cleared properly, in both a consistent and standardised manner. Inevitably this will require increased screening points to accommodate increased demand.

It is better to screen and clear properly, than rush the process to reduce queuing. However, a passenger's experience at any screening location should be as standardised as possible. This outcome cannot be achieved without a centralised and controlled screening authority to ensure consistent and quality security outcomes. There is also scope for introducing a more systematic and less subjective approach to "random" checks to improve the reliability and effectiveness of the process.

The introduction of special screening arrangements for specific groups of passengers raises a number of issues, including potential reduction in standards, heightened risk and increased complexities for aviation screeners. However, provided these issues can be addressed, some form of profiling or identity based screening system may warrant consideration.

Are the legislation and regulations in need of simplification?

Australia's aviation security legislation has been refined and refocused in a period of accelerated risk management and under understandable pressure to meet immediate and highly challenging circumstances. In large part it has been a successful process. Given the known challenges facing the sector and experience of the strengths and weaknesses of the current arrangements we believe it would be timely for the government to conduct a comprehensive review of all aviation security legislation to ensure that it not only complies fully with the Government's stated objective of providing an intelligence driven, risk-based, outcomes focussed, fair, transparent and timely aviation security framework, but also redeveloped to be more responsive to the rapidly changing nature and needs of Australia's aviation industry.

Do we adequately address the requirements of people with special needs?

In Virgin Blue's opinion, the answer in broad terms is yes. From an aviation security perspective, the requirements of people with special needs are adequately addressed. There remain, in our view, unresolved issues between legitimate community expectations in respect anti-discrimination standards and safety obligations which also carry equally legitimate community expectations. Greater clarity in law and community expectations would assist the aviation sector in the day-to-day management of this complex issue.

What can be done to improve the robustness and timeliness of background checks, particularly for applicants from overseas? Should the ASIC eligibility criteria be further strengthened? What should be the relationship between 'background checking' of staff and access control arrangements? Should background checking be extended to include managers/directors of companies with employees who hold an Aviation Security Identity Card?

The current background checking process within the aviation sector imposes high levels of checking on individuals. Whilst the ASIC regime is currently under review, some aspects of the regime do require immediate attention.

Virgin Blue supports the centralisation of the background checking via the newly established AusCheck agency, but there is a concern about the significant rise in the costs associated with undertaking the mandatory background checks. It is Virgin Blue's experience that the costs associated with undertaking such background checks, via AusCheck, have risen almost 100% since AusCheck's establishment.

Another issue of concern for Virgin Blue is the requirement for a new aviation industry employee to prove criminal history clearance for the last 10 years. Under current legislation it is the responsibility of the ASIC issuing body, namely either the airport or an airline, to obtain the overseas background checks for applicants. However, given the expansion of the aviation sector and increased international mobility of flight, cabin and technical crew and that issuing bodies have no authority to obtain such checks from overseas law enforcement or judicial bodies it is often difficult if not impossible to fully undertake such mandated checks.

This ongoing difficulty does and will continue to prevent suitably qualified, eligible and experienced industry personnel from workforce mobility and gaining lawful employment in Australia's aviation sector. This is particularly a problem given the skills shortage being experienced in the industry. This situation is further exacerbated by the fact that AusCheck refuses to undertake overseas background checks on behalf of issuing authorities.

Virgin Blue would recommend that the legislation be amended to remove the responsibility for obtaining overseas background checks from the issuing authority and have this responsibility reside with AusCheck. Any amendments should also ensure that AusCheck has the legislative authority to liaise with all necessary national and international policing, judicial, security and intelligence agencies to undertake thorough overseas background checks on applicants.