



27 February 2009

Aviation Green Paper
Department of Infrastructure, Transport, Regional Development
And Local Government
GPO Box 594
Canberra ACT 2601

Response of the Virgin Blue Group – National Aviation Policy Green Paper

Thank you for the opportunity to comment on the Aviation Green Paper.

The Government is to be commended for the comprehensive and detailed discussion of the issues facing the Australian aviation industry and the recognition of its importance to the overall Australian economy. It is particularly pleasing that the Green Paper places the aviation industry contextually within the Australian and the broader global economies and outlines the challenges faced both by Government and industry over the next decade.

The circumstances of the Australian and global economies will continue to be extremely challenging and will likely persist for a lengthy period. Consequently it is important the Government maintains its focus on ensuring efficiency in essential infrastructure; addressing skill shortages; streamlining the regulatory environment, and positioning the Australian industry to take advantage of inevitable structural changes to the global aviation industry. The structural issues in the economy underline the challenge to ensure the aviation sector performs efficiently and maximises its contribution to economy growth. This objective will best be achieved if the industry is treated equitably across the full range of issues currently under consideration.

Equitable treatment goes beyond fair treatment in respect of taxes and charges; comparable taxation and depreciation regimes relative to its major international competitors, and recognition in carbon offset arrangements of the substantial investment by airlines in state-of-the-art environmentally friendly aircraft and responsible corporate practice to include also a commitment by Government to efficient and effective regulation and access to best practice in the provision and maintenance of essential infrastructure.

In our submissions to this review, to the review of Australia's Future Tax System (the Henry Tax Review), and to the Carbon Pollution Reduction Scheme White Paper we highlighted a number of areas where the aviation sector could be treated more equitably in the application of Government policy. Aspects of the recently concluded Quarantine and Bio-security Review add to our concerns in this area. To support additional quarantine and bio-security measures recommendations have been made for a further increase in the Passenger Movement Charge, a tax levied directly against the aviation and tourism sectors. Taken individually there may be a view that impact on industry from such measures is minimal; however, taken collectively the impact is measurable. Careful attention needs to be given to ensuring that taxes and charges are fully transparent and reflect direct industry obligations.

The present market challenges faced by the industry and downstream dependent industries will be influenced heavily by the timing of the Government's wider reform agenda and its commitment to ensuring cross-linkages between the various reviews being undertaken. To illustrate the importance of the cross linkages, the application of the Carbon Pollution Reduction Scheme (CPRS) to the aviation sector cannot ignore the extreme situation in the

economy. Supporting the aviation sector to stimulate domestic tourism has the potential to quickly accelerate economic activity, particularly in regional Australia. It seems somewhat contradictory that the Government, having put so much effort into the economic stimulus packages – which we endorse, would then contradict that in the current climate with the application, through the CPRS, of a tax on investment and growth.

The Australian aviation sector's contribution to the national economy needs to be fully recognised in the economy wide policy debate, particularly the investment made by Australian carriers in essential aviation and tourism infrastructure which has underpinned deregulation of the domestic market and the liberalisation of international air services. The Australian aviation industry continues to invest heavily in a highly competitive market and against escalating cost pressures, including those from increased regulatory charges and inefficient infrastructure.

The Green Paper correctly identifies the long planning and investment lead times required in the aviation sector across all the key infrastructure components. These are complex commercial and technically difficult decisions which routinely take years to reach maturity, often in an environment which is rarely stable and often highly unpredictable. Implicit in the Government's recognition of these complexities should be a commitment to a stable and highly predictable policy framework which supports business risk inherent in long term investment cycles.

Implicit also should be recognition that regulatory and planning inefficiency carries a considerable cost to industry which inevitably flows through to the economy as a whole. Consequently, we support and encourage the Government's commitment to integrated planning to guide development and to provide greater planning and investment certainty for the industry.

The Government's commitment to ensure a balanced approach to the growth of Australia's international air services is in the national interest and is supported. Growing international trade and tourism and an on-going commitment to a strong, viable and trade competitive Australian aviation sector should not be mutually exclusive objectives for Government. As global aviation restructures the national interest is best served by ensuring Australian firms are positioned positively by Government policy to participate fully and beneficially in that restructuring.

We support excluding foreign operators from carrying domestic passengers. Cabotage concessions would put at risk Government policy which supports inward investment in the Australian aviation industry. We remain concerned that the inward investment strategy might not prevent foreign carriers from dumping capacity in the Australian market. Consideration could be given to ensuring that appropriate safeguards are in place to prevent such an outcome. The primary objective of the policy is not to provide sanctuary for poor business decisions made in other economies, particularly those which have not engaged to the same degree in micro-economic reform. The overarching policy should continue to provide a credible basis for legitimate planning and investment in the aviation industry.

Australia will be challenged to ensure the skill base in the economy can support significant expansion of aviation activity over the next decade. This will require a concerted effort across industry and Government to ensure that there are sufficient qualified pilots, air traffic controllers, engineers, and safety and security regulators to meet sectoral interests and to ensure aviation continues to effectively operate as a key economic driver in the national economy.

We support the commitment to maintaining and improving aviation safety and security. The proposed safety initiatives are sound and represent good public policy. It is important the regulatory reform program is fully completed by the end of 2010 at the latest and that appropriate resources are available to the regulator to complete the task. The re-establishment of the CASA Board is supported as is the proposal to give the ATSB statutory

independence. We support security procedures which address the real nature and level of threats and are efficient and consistently applied. Introduction of new security arrangements, including in regional Australia, should be risk based and cost effective.

Improving the efficiency of air traffic management and the wider adoption of satellite based technology for air traffic navigation and surveillance is a high priority for the aviation sector. The joint development of an Air Traffic Management Plan for Australia, including additional investment in air traffic infrastructure, supported by training highly qualified air traffic controllers and improvements to airspace classification and administration are important initiatives which will address underlying concerns and improve the efficiency of airspace management. Development and implementation of technology which will enable airlines to fly more flexible and efficient routes and improve awareness and safety are important and highly anticipated initiatives. We look forward to working closely with Government agencies on the introduction of new technology and achieving best practice outcomes.

Infrastructure Australia can play an important role in addressing known infrastructure constraints within the aviation sector. We encourage the Government to ensure the need of the aviation sector for access to efficient infrastructure is supported by Infrastructure Australia.

The decision to find a solution to the future airport needs of the Sydney region is welcomed. Inefficiencies associated with airline operations at Sydney are well documented and are already having a material impact on the efficiency of air services to, from and within Australia. For over three decades this matter has been debated by Australian Governments. It is now time to move decisively to resolve this persistent problem. We do understand the full range of complexities but for the industry important investment and long term planning decisions are dependent on clear, unambiguous direction from Government as to the timing of addressing this important issue.

For public and industry confidence to be assured it is important that monopoly providers of essential services are effectively monitored by relevant Government agencies. We encourage the continuation of price monitoring at Federal leased airports and the development of "show cause" mechanisms which would require airport operators to demonstrate why closer scrutiny would not be warranted.

The intersection between provision of aviation services and their impact on communities and the environment is complex. For its part, the aviation sector continues to invest heavily in improving aircraft design and flight management and introducing those benefits to the Australian economy. That investment needs to be supported and encouraged by Government by ensuring the final design of CPRS supports an industry demonstrably committed to the Government's long term objectives of reducing carbon impact. Fuel savings and carbon reduction will also be greatly assisted by improved traffic management procedures including flexible flight tracks, improved aircraft air traffic control sequencing and introducing continuous descent approaches. High levels of coordination will also be required between the various levels of Government in relation to planning decisions to ensure that new residential developments are not permitted in established air corridors.

We look forward to working closely with the Government on these important reform initiatives and would be happy to provide additional comments if required.

Yours sincerely



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