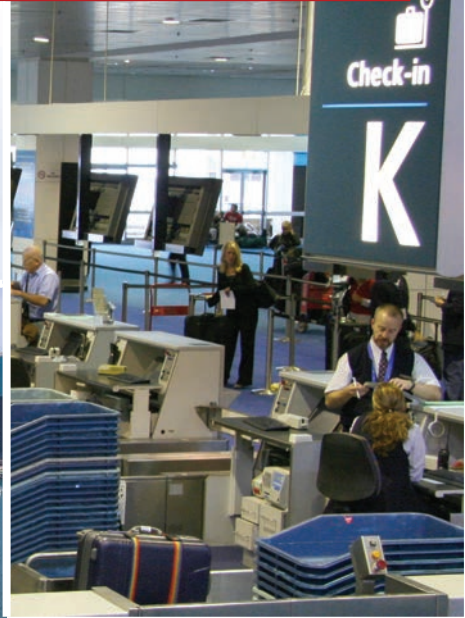




BOARD OF AIRLINE REPRESENTATIVES OF AUSTRALIA

**Vision and Outcomes
for International Aviation
in Australia**



CONTENTS

Overview of BARA	3
International Aviation in Australia	4
BARA's Vision and Outcomes	5
Outcome 1: Timely and reasonably priced airport infrastructure	6
Outcome 2: The competitive supply of jet fuel	8
Outcome 3: Safe and efficient air navigation	10
Outcome 4: Environmentally sustainable growth	12
The Australian Government and International Aviation	14
BARA's Members	15

Overview of BARA



The Board of Airline Representatives of Australia (BARA) is the industry body promoting the safe and efficient operations of international airlines serving Australia for the benefit of consumers, businesses and tourism.

BARA's member airlines provide 90 per cent of all international passenger flights to and from Australia.

The role of BARA is to provide a collective voice on major issues that impact international aviation. The sustainable growth and potential of Australia's international aviation industry depends on the right economic policy framework, and legislative and regulatory arrangements.

BARA actively engages with the Australian and State Governments, industry and the media in seeking good policy outcomes for Australia's international aviation.

As a 'hands on' industry body, directly supporting its members' operations, BARA takes a collaborative and practical approach to its work. The Australian Competition and Consumer Commission (ACCC) has authorised BARA to undertake collective negotiations on behalf of its members, with major international airports, Airservices Australia and other providers of essential aviation-related services.

At an operational level, BARA engages with airport operators and border agencies to improve the experience, efficiency and safety outcomes for international passengers.

Some 5.7 million people visited Australia in 2012, directly contributing over \$25 billion to Australia's economy. International airlines carried about 30 million passengers to and from Australia in 2012-13. Australia's tourism industry employs over half a million people, and international aviation is a vital contributor to this employment base.

Given the industry's critical importance to the Australian economy as a whole, BARA is proud of the contribution it makes in promoting vibrant and cost-efficient international aviation in Australia. Its efforts have benefited those directly involved or connected with international aviation.

BARA recognises that international aviation exists to provide services to people and businesses. Effective co-ordination, the efficient delivery of services and a focus on customers is the key to the industry's sustainable success.



BARA is the industry body supporting Australia's international aviation industry.

International Aviation in Australia

International aviation has experienced tremendous growth over the last decade. Passenger numbers have almost doubled from about 16 million to the present 30 million per year. This is an impressive figure given Australia's population is around 23 million.

The benefits of this growth to Australia are substantial. International experience indicates that about 1,000 local jobs are generated for every million airline passengers. International tourism contributes about \$25 billion per year to the economy. Over one fifth of Australia's trade by value is carried by international aviation, worth over \$100 billion each year.

These statistics demonstrate the importance of international aviation to the Australian economy and job creation. At the same time, the industry faces significant cost pressures that need to be addressed, to maintain and increase productivity.

Affordability and industry growth

A key growth driver has been the sustained improvement in the industry's productivity, reducing the real cost of airfares. Combined with growth in Australia's disposable income, international travel has become increasingly affordable.

As an example, in 1994 the cost of an economy flight from Sydney to Singapore was about \$2,100 in today's terms, representing about two and a half weeks of average weekly earnings. Now the same flight ranges from about \$350 (low cost airlines) to \$850 (full service airlines), equivalent to less than one week of average weekly earnings.

This tripling of affordability has made international travel an important part of the lives and careers of many Australians. It has connected Australia to the rest of the world, creating a vibrant and profitable tourism industry, providing jobs for hundreds of thousands of Australians.

Growth in international aviation creates jobs and benefits the economy.



Australia's aviation industry has undergone significant reform since the 1990s, with deregulation and changes in the ownership structure of major airlines. Although the industry has become more efficient and competitive, more needs to be done in the coming years to ensure a viable, competitive market which provides value to customers.



The Industry Challenge



Australia is facing significant challenges which will impact on air travel affordability and the economic growth the industry generates. Increased costs at airports, heightened investment in air navigation technology and the competitive supply of jet fuel, all pose a challenge. The Australian Government also levies charges on international passengers.

A key question for the industry is: how is affordability and productivity growth to be maintained and improved into the future? BARA will play an increasingly important role for the industry in developing solutions to this question.

Billions of dollars of investment in new aircraft, airports and air navigation technologies will be necessary to maintain and grow the industry. A significant challenge is that major providers and suppliers have substantial market power in setting the prices paid by international airlines for their inputs and services. Combined, the investment needs and supplier market power will place upward pressure on the industry's cost base.

International airlines operate in highly competitive global markets and do not have sustained market power in setting airfares. For example, in 2012 global airline profits were approximately \$2.60 per passenger. This shows that there is a need for airlines to improve their returns to justify future investments in new aircraft and services.

BARA's Vision and Outcomes

To guide BARA's work and clearly articulate its ideals, BARA's members have developed a vision for Australia's international aviation industry.

The vision for international aviation in Australia is 'High quality, adaptive and efficient'.

Underpinning this vision, BARA has identified four key outcomes to boost competitiveness, productivity and the financial performance of industry participants.

These are

Outcome 1: Timely and reasonably priced airport infrastructure

Outcome 2: Competitive supply of jet fuel

Outcome 3: Safe and efficient air navigation

Outcome 4: Environmentally sustainable growth

The Australian Government will play a critical role in shaping the environment in which airlines and their suppliers operate, and consequently in the achievement of these outcomes. BARA is committed to working with all industry stakeholders and governments to maximise the industry's contribution to Australia's economy.



OUTCOME 1

Timely and reasonably priced airport infrastructure

Australia's major airports are our gateways to the world. When people visit Australia, the airport is one of the first impressions they obtain about the country. To enable ongoing growth, timely investment is needed in airport infrastructure, such as runways, taxiways, terminals and roads.

BARA actively engages with airport operators in developing investment and expansion programs to deliver the right airport capacity at the right time. BARA also works with border control agencies to improve the experience, efficiency and safety for international passengers.

Australia's major airports have substantial market power in setting the prices paid by international airlines. Successive Australian Governments have, over the long term, maintained a policy of 'light-handed' economic regulation of major airports. In this policy environment, airport prices are not subject to arbitration by an independent party.

Current policy is underpinned by annual monitoring of airport prices and profits by the Australian

Competition and Consumer Commission (ACCC). The ACCC, however, has no ability to directly intervene over price and non-price terms.

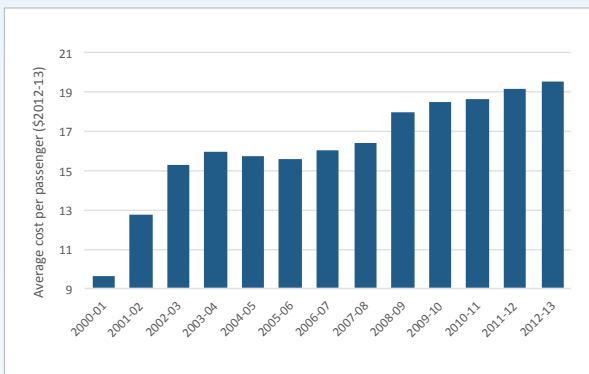
Airport operators are willing to, and need to invest, because the growth in passenger numbers generates both revenues from airlines and directly from passengers through retail and car parking

The prices charged by airport operators have, however, doubled in real terms over the past 10 years. Security costs have also increased substantially over this time. Further, the billions of dollars being invested to service growth will put significant upward pressure on prices.

Australians, and their elected representatives, expect the costs of travelling by air for leisure and for business, to remain affordable over time. Rising airport and security costs, therefore, represent a major challenge to an industry seeking to ensure affordability for consumers and continued growth in inbound tourism.



Average international landing and terminal costs per passenger



Source: ACCC prices monitoring reports

BARA has done much to promote the government policy objectives through its good faith negotiations on behalf of members. BARA does consider, however, that the profits being obtained by airports are higher than that necessary to justify their investments.

BARA understands that airports, like all commercial industry participants, need to remain profitable and provide returns to their shareholders. However, no participant in the market should make profits that drive down returns by other participants while placing upward pressure on consumer prices.

The last decade has demonstrated the strength and stability in the returns earned by airports. BARA considers that this stability should be reflected in more balanced price outcomes for international airlines.

What will BARA do to influence the timely and reasonably priced airport infrastructure?



- Work constructively and engage in good faith negotiations with airport operators over the provision and pricing of aeronautical services and facilities for international aviation
- Conduct research and analysis into the profitability of Australian airports, so that the true risk and return profiles are understood by all industry stakeholders
- Encourage the ACCC to take a more active stance in assessing airport profits, including its ability to investigate the pricing practices of airports
- Promote the airfare affordability/growth paradigm, highlighting the risk that a rapidly expanding airport cost base poses to long term industry growth

A more balanced negotiating environment would improve industry outcomes.





OUTCOME 2

The competitive supply of jet fuel

Australian Governments have, since the 1990s, placed a particular emphasis on fostering competition in industry for the long term good of the Australian economy and consumers.

Aviation has been one industry at the forefront of this policy. While competition has emerged in many areas of aviation over this time, it is still lacking between jet fuel suppliers at major airports.

Jet fuel is a critical and costly element of international aviation. At Sydney Airport, international airlines purchase over a billion litres of jet fuel each year, costing over \$1.2 billion.

International airlines in Australia pay some of the highest prices for jet fuel globally. Some of the price is attributable to the cost of importing jet fuel into Australia. BARA, however, is concerned that prices are also inflated due to a lack of effective competition between jet fuel suppliers.

There is often little competition between suppliers when international airlines tender for jet fuel at Sydney Airport. BARA understands that similar issues exist to varying degrees at all major airports. This lack of effective competition can usually be traced to the capacity and ownership of jet fuel supply infrastructure.

BARA has brought its concerns over the lack of effective competition to the National Competition Council (NCC). In assessing the state of competition between jet fuel suppliers at Sydney Airport, the NCC stated that:

...the Council does not consider the market associated with the supply of jet fuel is effectively competitive nor that there is a vigorously competitive tender market.¹

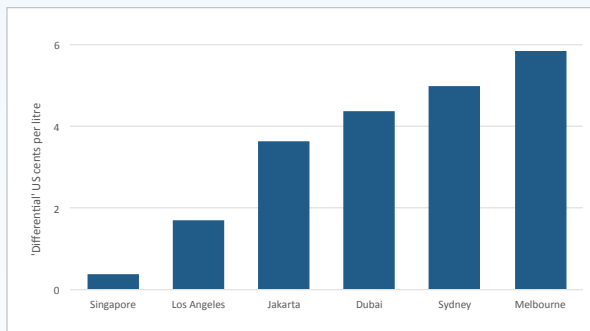


Despite this, BARA's efforts to encourage greater competition could not be pursued due to a lack of available capacity. This lack of capacity, however, does not alter the underlying need to improve competitive conditions between jet fuel suppliers.

BARA considers it essential for the Australian Government to take a leading role in improving the competitive environment between suppliers. A key way of achieving this will be to establish 'common use' jet fuel supply infrastructure not owned or controlled by jet fuel suppliers.

BARA is willing to continue to work with all industry stakeholders and government to investigate ways of opening up competition in this segment of the aviation industry.

Jet fuel differentials, Australia and overseas airports



Source: Data provided by the International Air Transport Association

1 National Competition Council (13 March 2012), Jet Fuel Supply Infrastructure at Sydney Airport, Final Recommendations, Paragraph 4.41

What will BARA do to foster a more competitive supply of fuel to airlines at major airports?



- Undertake and publish analysis of the competitive state of jet fuel supply at Sydney, Melbourne, Brisbane and Perth Airports
- Encourage the bringing forward of an additional jet fuel pipeline to Sydney Airport and establishing open access for all potential jet fuel suppliers
- Encourage the Australian Government to undertake a public inquiry into the capacity and competitiveness of jet fuel supply in Australia.

The competitive supply of jet fuel will reduce prices and improve the security of supply.





OUTCOME 3

Safe and efficient air navigation

As its growth and contribution to the nation has shown over the last 100 years, the aviation industry is vitally important to a country as geographically immense, internationally remote, and as highly urbanised as Australia.

As all industry stakeholders and government recognise, air navigation is critical to safe and efficient airline operations, and Australia's track record on air safety is second-to-none. Air navigation services in Australia's flight information region are provided by Airservices Australia (Airservices), a government-owned corporation.

Airservices is a substantial cost component of Australia's aviation, requiring some \$900 million in annual funding by airlines. Equally important, the investments Airservices makes in its air navigation technologies directly impact on the efficiency of airline operations, especially flight times and fuel burn.

Improvements in Airservices' efficiency and service quality can therefore translate into meaningful

reductions in both the prices paid by airlines, and total airline operating costs.

Representative prices paid by international airlines have fallen in real terms by about 10 per cent over the past 10 years. Airservices, however, faces significant cost pressures over the coming years as technology advances and safety standards evolve. Airservices is planning to invest some \$1 billion over five years to replace and modernise its infrastructure. A key initiative is the new 'OneSKY' harmonised national air traffic management system.

This level of expenditure can be expected to place considerable upward pressure on prices. A real challenge for the industry is therefore to ensure that the investment in infrastructure generates corresponding benefits to airline operating costs.

Furthermore, the growth of regional aviation is increasing the level of investment required by Airservices at regional airports. BARA is concerned that the costs of these investments will be cross-subsidised by international airlines through various



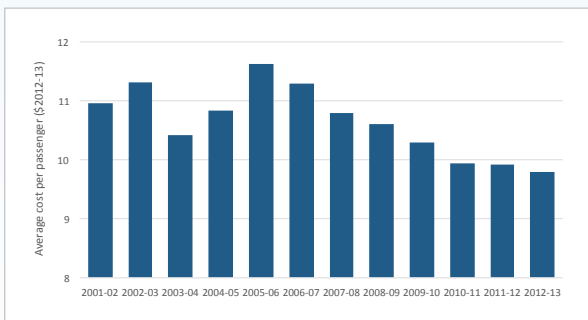
forms of unjustified and inefficient uniform pricing across all airports.

BARA supports Airservices' efforts to further improve safety outcomes and increase the efficiency of airline operations. BARA sees merit however, in Airservices better articulating and demonstrating the benefits of its expenditures to airlines and passengers. This would allow for a more holistic assessment of Airservices' costs and service quality.

Cost-reflective pricing by Airservices across individual airports will encourage efficient and customer-valued investment decisions. This will contribute to the long-run productivity of Australia's aviation industry.

BARA will actively engage with Airservices and government to promote the better articulation of the benefits of investment to segments of the industry, and to promote the adoption of cost-reflective pricing.

Representative Airservices' charges per passenger – Sydney to Singapore



Source: ACCC prices notifications for Airservices

What will BARA do to ensure efficient investment in safety and air navigation?



- Work constructively with Airservices to promote an investment program that delivers continuing improvements in safety and airline operating efficiencies
- Promote the continued transparent process over the setting of Airservices' prices, including full disclosure of costs and revenues by service location
- Demonstrate and promote the benefits of cost-reflective pricing by Airservices for its en-route, terminal navigation and aviation rescue and fire fighting services by location
- Explore options for a more outcomes-based and equitable method of funding Airservices' non-commercial activities, especially those services provided to general aviation



Airservices is critical to safe and efficient aviation in Australia.



OUTCOME 4

Environmentally sustainable growth

In recent years, with climate change becoming one of the most significant challenges faced by policymakers, a particular focus has been placed on carbon emissions by airlines.

International airlines have been at the forefront in adopting solutions, including efficiency of fuel use, adoption of new fuel technologies and carbon offsets by passengers.

BARA's members are committed to environmentally sustainable growth. The vast majority of airline carbon emissions are a by-product of fuel burn, which clearly represents a major challenge for international aviation.

The International Air Transport Association (IATA) has endorsed the following environmental goals for international aviation:

- 1.5 per cent average annual fuel efficiency improvement between 2010 and 2020
- Carbon neutral growth from 2020
- A reduction of 50 per cent in net emissions by 2050 compared to 2005 levels

Continual improvements in fuel efficiency have contributed greatly to international aviation's environmental outcomes. Globally, airlines have improved their fuel efficiency by about 30 per cent over the last decade.

This improvement in fuel efficiency is a result of many factors, including substantial multi-billion dollar investments in fuel efficient aircraft by international airlines, improved air navigation services (reducing flight times), and more efficient airport operations (reducing the time spent on the ground).

A longer-term consideration for airlines to reduce their carbon emissions is through biofuels. Dozens of airlines have undertaken test flights using biofuels and have proven that biofuels work and can be mixed with existing jet fuel. Commercial flights using biofuels were achieved in 2011.

This potentially has major flow-on benefits to the Australian economy, through the emerging biofuels industry. Commercialisation of the

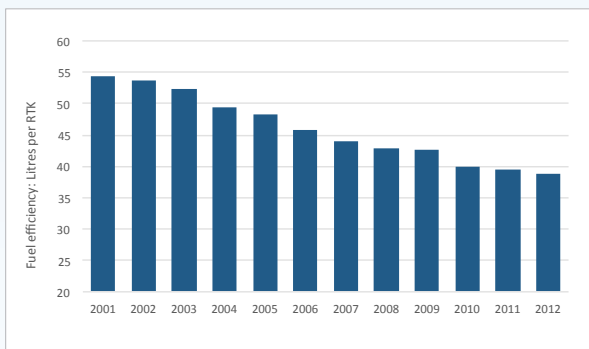


biofuels industry in Australia, however, will require government support.

Carbon offsetting, through direct or indirect means, also represents an important option for international aviation. BARA's members support the work being done by the International Civil Aviation Organization (ICAO) in developing global measures for emissions by international aviation.

BARA will continue to work with industry stakeholders, and provide advice to government, on economically viable ways for the industry to minimise its environmental impacts.

Annual improvement in fuel efficiency



Source: Data provided by the International Air Transport Association



What will BARA do to promote environmentally sustainable growth?



- Support initiatives by Airservices Australia to promote greater fuel efficiency
- Monitor ICAO developments on aircraft emissions actions, including a market-based scheme for international aviation
- Support cost-effective actions that either directly reduce aviation emissions or offset emissions through emission reductions in other industries
- Participate in industry discussions and forums on ways international airlines can contribute to environmentally sustainable growth

International airlines are committed to environmentally sustainable aviation.

The Australian Government and International Aviation

Australia's international aviation industry is characterised by strong competition between airlines in a dynamic operating environment. BARA works positively and constructively with the Australian Government to improve the industry's productivity and competitiveness.

The Australian Government plays a critical role in shaping the environment in which international airlines, airports, jet fuel suppliers and Airservices operate. BARA's desired outcomes rely on the improvement of policy settings by the Australian Government.

For example, international airlines cannot create the conditions for effective competition to emerge between jet fuel suppliers. This will require active involvement by the Australian Government in opening up jet fuel supply in Australia, and accords with competition policy developed by governments since the 1990s. The Australian Government also influences the productivity of Australia's international aviation through the taxes it levies on international passengers.

A fair sharing of industry returns

BARA considers it is in the long-term interests of the industry and consumers to have an equitable sharing of available returns based on the allocation of risk and individual supplier performance.

Ensuring all industry participants have the opportunity to earn reasonable returns will encourage appropriate levels of investment in services most valued by passengers and business customers.

BARA and the industry agree that it is not the role of the Australian Government to directly determine the profits and financial outcomes of international airlines and industry suppliers.

The Australian Government shapes the environment in which the industry develops.



Government policymaking does, however, influence the ability of international airlines to reach fair and reasonable outcomes with suppliers that have considerable market power.

With new challenges and opportunities emerging, the industry is now seeking new ways of doing business efficiently, new means of lifting productivity, and new opportunities to ensure services remain commercially viable.

Given these times of change, BARA and its members look forward to more actively engaging with government, to develop innovative solutions benefiting Australian travellers, businesses, tourism and the economy as a whole.



BARA's Members

AIRCALIN

AIR CANADA

AIR INDIA

AIR MAURITIUS

AIR NEW ZEALAND

AIR VANUATU

ASIANA AIRLINES

CATHAY PACIFIC AIRWAYS

CHINA SOUTHERN AIRLINES

DELTA AIR LINES

EITHAD AIRWAYS

EMIRATES

EVA AIR

FIJI AIRWAYS

GARUDA INDONESIA

JAPAN AIRLINES

KOREAN AIR

MALAYSIA AIRLINES

PHILIPPINE AIRLINES

QANTAS AIRWAYS

QATAR AIRWAYS

ROYAL BRUNEI AIRLINES

SINGAPORE AIRLINES

SOUTH AFRICAN AIRWAYS

THAI AIRWAYS

TURKISH AIRLINES

UNITED AIRLINES

VIETNAM AIRLINES

VIRGIN ATLANTIC

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The **leading** voice of airlines



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