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Pre-Budget Submissions
Department of the Treasury
Langton Crescent
PARKES ACT 2600
Via Email: prebudgetsubs@treasury.gov.au

To Whom it May Concern,

Australian Airports Association's 2022-23 Federal Budget submission

I am writing to you today to provide a submission to the October 2022 Federal Budget process from the Australian Airports Association (AAA). The AAA is the national voice for airports, representing the interests of more than 330 airports and aerodromes across Australia. It also represents more than 150 corporate members supplying products and services to airports.

This Pre-Budget submission is based on the one provided to the previous Government for their April 2022 Budget. Given the change of Government and changing economic circumstances, however, this submission contains updated information and a focus on low or no cost funding requests for the airport sector as follows:

'Low Cost/No Cost' regulation and policy initiatives

The aviation industry is among the most heavily regulated sectors of the Australian economy. Sensible and proportionate regulatory reform is a straightforward action the Australian Government can undertake now to support the airport sector's recovery. Reform measures the Australian Government should consider implementing at the earliest opportunity to support the airport sector include:

- Lifting Major Development Plan (MDP) thresholds from \$25 million to \$50 million at Federally leased airports (FLAs). Thresholds were last set in 2018, with the previous Government allowing a proposed increase to \$35 million lapse in September 2021. Requiring FLAs to work up a full MDP process for relatively low value projects creates a considerable time and money burden, particularly where lengthy public exhibition processes are involved. An increase would also recognise the significant growth of input and delivery costs in Australia's civil construction industry since 2018.
- Adoption of the National Airspace Safeguarding Framework (NASF) Review recommendations by state and territory land-use planning systems ahead of the 2027 date. The 2021 NASF Review recommended an inter-governmental agreement on a national approach to airport safeguarding and the adoption of the NASF Principles and Guidelines by state and territory government planning systems by 2027.¹ Bringing these goals forward would provide important support to airports and ensure their ability to function effectively is not compromised by contradictory planning decisions.
- Early lease renewal for Airport Leasing Companies at FLAs. Allowing FLA to exercise the second half of their 99-year leases ahead of schedule would enable the successful private sector investment journey undertaken by Airport Leasing Companies (ALCs) at FLAs to continue and provide certainty for both the Australian Government and ALCs. The head lease allows for ALCs to exercise this option in year 40 of the initial lease term (between 2037 and 2043). The AAA suggests the Government bringing forward the date for ALCs to exercise their options from 2027 at year 30 of

¹ Department of Infrastructure, Transport, Regional Development and Cities (2021), 'Review – National Airports Safeguarding Framework implementation'. Accessed on 20 August 2022 from: <https://www.infrastructure.gov.au/infrastructure-transport-vehicles/aviation/aviation-safety/aviation-environmental-issues/national-airports-safeguarding-framework/implementation-review>

the lease. As planning, development and delivery of infrastructure requires long renewals will provide confidence for long-term investment in airport infrastructure to support future growth.

- Extension of Master Plan 'due dates'. Several smaller FLAs are due to lodge their updated Master Plans (MP) by 2022. These airports' current MPs were on the then 5-year renewal cycle prior to the 2018 amendments to the *Airports Act 1996*. These amendments placed most FLAs on an 8-year MP cycle, except for Sydney, Melbourne, Brisbane, Perth and Western Sydney airports, which remain on a 5-year MP cycle.² Given the time and money cost to FLAs of developing and exhibiting an MP to gain Ministerial approval, the alignment of pre-2017 MP due dates to the new 8-year cycle is recommended to provide some relief from compliance costs of mid-tier 'metro' and regional FLAs.
- Bring forward the review of the National Freight and Supply Chain Strategy. The review is due to take place in 2024 but should be brought forward to 2023 given the effects of climate change, the pandemic and geopolitical shocks on Australia's supply chains and freight networks. The review should also examine the National Freight Network Planning Principles, the adoption of land use protections for critical freight corridors and infrastructure (such as the NASF) by state and territory planning systems. As data is key to good government decision making, maintaining funding for the National Freight Data Hub across the forward estimates is essential to deliver the Strategy and guide future planning and investment by Government.

Aviation security

In May 2018, the Australian Government mandated measures to strengthen Australia's aviation security screening regime after the disruption of an alleged terror plot in July 2017. Airports committed to these upgrades, of security screening to computerised tomography (CT) based scanning of passengers and baggage so Australia can remain a trusted destination in the global aviation network and a leader in aviation security. Since this decision, the effects of the pandemic on the aviation industry, volatility of national and international aviation networks and Government policy decisions has made the delivery of aviation security upgrades challenging:

- The long queues for security screening at 'Designated' and 'Tier 1' security-controlled airports in the capitals and large regional cities are one of the more visible components. The Department of Home Affairs mandate for 100% body scanning slowing throughput, while also requiring a high percentage of re-scanning of passengers (unintentionally creating risk in landside areas).
- At smaller 'Tier 2' regional airports, increased operating costs from new CT security screening equipment has also become an area of concern caused by volatility in the regional aviation network, anomalies in Home Affairs' screening methodology³ along with high labour and service delivery costs in regional job markets.

While some aviation security issues require heavier regulatory intervention, issues the Government can address in the forthcoming Budget through low cost/no cost initiatives include:

- A review of security screening processes and protocols at 'Designated' and 'Tier 1' airports to ensure they remain the most appropriate way to meet airside and landside threats to national security. This would help airports to better manage the spectrum of security risks including the ongoing resource challenges facing the aviation industry. Any review of the current aviation security posture should consider recommendations from the previous Government's review of transport security arrangements (the Proximity Review).
- Continuing operating cost support for regional security screening at Tier 2 airports. The previous Government allocated \$28.5 million in its 2022-23 Budget to support funding for regional airport security screening to 31 December 2022. While this has helped to provide a short-term 'bridge' of the operational cost issue, the tapering of support at the end of 2022 means decisions must be made now to either renegotiate or cancel screening contracts. A further extension of the operational cost support for Tier 2 airports to the end of FY2022-23 will help bridge the gap until a long-term solution for regional airport screening is determined.

² Department of Infrastructure, Transport, Regional Development and Cities (2018), *Airports Act 1996 Airports Amendment October*. Accessed on 24 August 2022 from: <https://www.infrastructure.gov.au/sites/default/files/migrated/aviation/airport/planning/files/181015-Airports-Act-amendment-guidelines.pdf>

³ The Department requires screening of passengers and baggage flying on aircraft with 40 or more seats on Regular Public Transport (RPT) and open charter services, but for aircraft below this limit, screening is not required. This decision to put a 'dual track' screening system in place increases operating cost of security screening and the inefficient use of terminal space.

Visa processing services

Since Australia's borders have re-opened in February 2022, Australia's immigration and border services have had to scale up quickly from a standing start. The AAA commends the Government's efforts to reduce delays in issuing visas to inbound migrants and travellers. In the next Budget, adequate resourcing for visa processing functions is essential to reduce backlogs in issuing times and fast track visa applications, particularly for existing growth nations (India, Malaysia) and once countries feeding significant inbound tourists and migrants (China) reopen to the world.

Competition Policy

Australia's major capital city airports are perceived by competition regulators as having significant market power. However, four successive Productivity Commission reviews from 2002 to 2019 of airport economic regulation concluded airport market power is balanced by the countervailing power of airlines, particularly where competition among airlines is reducing through mergers and acquisitions.

The AAA proposes that the Airline Competition Monitoring regime continues beyond June 2023. In June 2020, the previous Treasurer was sufficiently concerned by the state of competition in the airline industry to direct the Australian Competition and Consumer Commission (ACCC) to "...monitor prices, costs and profits relating to the supply of domestic air passenger transport services, and of related goods and services, for a period of 3 years".⁴ This direction is due to expire in 2023. The AAA recommends the ACCC receives further direction and funding to continue maintaining effective, long-term oversight of airline competition equivalent to the existing airports monitoring regime.

Supporting regional, remote and mid-sized airports

Most Australian airports are located outside capital cities, in regional and remote Australia, providing essential passenger and connections for communities across the nation. The AAA appreciates the role Government has taken to support these airports and help overcome the challenges of maintaining this significant asset base. Government should also have a role in supporting mid-sized airports in regional and urban Australia serving highly productive, economically diverse regions hosting passenger, freight and emergency aviation facilities. Support is also needed to bring forward critical infrastructure projects at mid-sized airports which are 'too urban' or 'too large' for existing regional airport grant programs.

The AAA has identified 78 shovel-ready projects at regional, remote and mid-sized, airports worth \$451 million, covering airfield lighting, pavements and drainage, taxiways, fuel storage and other aviation-related infrastructure. Initial project evaluation by the AAA indicates at these projects would create more than 2700 direct construction jobs, 25,000 direct and indirect ongoing jobs and generate \$17 billion in wider economic benefits. To help bring forward these essential projects, the Government should consider the following actions in the Budget:

- Recharges the Regional Airport Program (RAP) and Remote Airstrip Upgrade Program (RAUP). Both programs have been invaluable to ensure regional and remote airports maintain aeronautical infrastructure in a state of good repair and meet modern aviation safety standards, however RAP and RAUP will both end in FY2022-23. Topping up the RAP and RAUP jointly with \$100 million over four years from FY2022-23 will help place regional and remote airport funding on a more certain footing. Funding certainty will help bring forward projects and unlock matching investment from airports to create jobs and wider economic benefits in regional and remote Australia.
- Maintains full Government funding for RAP and RAUP projects under \$300,000. In 2020, the former Government extended the RAUP's full funding of small projects (below \$300,000) to airports seeking funding for small projects under the RAP. This measure should be re-instated, as outer regional and remote councils will continue to have difficulty in co-funding small-scale safety critical aviation infrastructure projects.
- Set up a mid-sized airport grant funding program. The diverse range of ownership models and activity levels at mid-sized airports make them either ineligible for existing regional airport grant programs or constrain their access to long-term capital for investment in essential infrastructure maintenance and upgrading. Bringing forward these projects could be facilitated through a targeted infrastructure grant program of \$160 million over four years from FY2022-23.

⁴ The Treasurer (2020), *Competition and Consumer (Price Monitoring—Domestic Air Passenger Transport) Direction 2020*. Accessed on 25 August 2022 from: <https://www.legislation.gov.au/Details/F2020L00763>

The AAA also supports the Australian Local Government Association's call to increase Financial Assistance Grants to councils, as these will help councils fund the 50% co-contribution for future RAP projects, which some local government airports identified as a significant hurdle for proponents.

Delivering election commitments

The AAA calls the Government's attention to the \$119.5 million of infrastructure upgrades at mid-sized and regional airports pledged during the election campaign. The AAA appreciates the recent start of construction of the new terminal at Bendigo airport, a \$4.5 million election commitment, but also looks to funding in the Budget for the delivery of other airport infrastructure election commitments including:

- Upgrading Hobart Airport's runway to 'Code E' standard (\$60 million)
- A new International Terminal at Newcastle Airport (\$55 million)

Should you have any questions regarding this submission, please contact the AAA's Director of Policy and Advocacy, Scott Martin via telephone on 0437285739 or via email at: smartin@airports.asn.au.

Yours sincerely

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