



SUBMISSION TO CARBON POLLUTION REDUCTION SCHEME - GREEN PAPER

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Serving regional aviation, and through it, the people and businesses of regional Australia

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The Regional Aviation Association of Australia (RAAA) Response to the Carbon Pollution Reduction Scheme Green Paper

The RAAA and its Members

The Regional Aviation Association of Australia (RAAA) was formed in 1980 as the Regional Airlines Association of Australia to protect, represent and promote the combined interests of its regional airline members and regional aviation throughout Australia.

The Association changed its name in July 2001 to the Regional Aviation Association of Australia and widened its charter to include a range of membership, including regional airlines, charter and aerial work operators, and the businesses that support them.

The RAAA has 26 Ordinary Members (Air Operator Certificate holders (AOC)) and 48 Associate/Affiliate Members. A list of RAAA members is attached to this submission. The RAAA's AOC members directly employ over 2,500 Australians, many in regional areas. On an annual basis, the RAAA's AOC members jointly turnover more than \$700M, carry well in excess of 2 million passengers and move over 23 million kilograms of freight.

RAAA members operate in all States and Territories and include airlines, airports, engineering and flight training companies, finance, fuel and insurance companies and government entities. Many of the RAAA's members operate successful and growing businesses providing employment and economic sustainability within regional areas.

Some examples of RAAA members' significant presence in regional Australia is the REX hub in Wagga Wagga, Sharp Aviation in Hamilton, Airlink in Dubbo, Airnorth in Darwin and Skytrans in Cairns to name just a few.

Many of the fly in/fly out operations for the mining sector are flown by RAAA members. These members are providing a vital service to an industry sector that is driving the Australian economy.

Members such as Basair, Sharp Aviation, Rex and Brindabella Airlines have established flying schools to cater for rapidly increasing demand for commercial pilots. Other members, such as Alliance Airlines, are continuously developing their engineering training courses to ensure that their new engineers receive up to the minute training.

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RAAA Charter

The RAAA's Charter is to promote a viable regional aviation industry. To meet this goal the RAAA:

- promotes the regional aviation industry and its benefits to Australian transport, tourism and the economy among government and regulatory policy makers;
- lobbies on behalf of the regional aviation industry and its members;
- contributes to government and regulatory authority policy processes and formulation to enable its members gain input into policies and decisions that may affect their businesses;
- encourages high standards of professional conduct by its members; and
- provides a forum for formal and informal professional development and information sharing.

The RAAA provides wide representation for the regional aviation industry through discussions with Ministers and senior officials, through parliamentary submissions, personal contact and by ongoing, active participation in a number of consultative forums.

Climate Change Challenges

Depending on the source, the aviation industry is responsible for approximately 2 % of all global CO₂ emissions and around 1% of domestic emissions. Even though this is a relatively small percentage the RAAA takes this issue seriously as a partner in Australia's efforts to reduce this country's overall emissions. The RAAA supports initiatives to provide a clean, productive and sustainable natural environment, but not at any cost.

Immediate aviation measures such as flight track shortening, straight in approaches, reduced holding patterns, and more efficient Air Traffic Management procedures assisted by new GNSS technology are, in conjunction with Airservices Australia, being implemented to reduce fuel burn and thus emissions.

More fuel efficient and aerodynamically efficient aircraft are reaching the market supported by considerable research in the use of bio fuels in current engines as well as future jet/turbo prop engines now under development. Aviation has always had a vested interest in increasing efficiencies and there is no doubt that this research will flow on to benefit non-aviation industries and consumers.



Driven by the nature of its market and its reliance on fossil fuels, the aviation industry has developed engines and airframes that are vastly more efficient than even twenty years ago. Indeed, many of the fuel saving methods and materials now in widespread use by the public were first developed by the aviation industry eg, fuel injection, new metals, improved aerodynamic design and light, strong composite materials to name a few. The aviation industry is a natural partner in any initiatives to use fossil fuels more efficiently and is also at the forefront of the development of bio-fuels. The industry is taking early steps in the development of diesel and electric aero-engines for personal/business aircraft. Efficient diesel engines are now powering a number of new production aircraft. While the research is still at a very early stage at least two electric powered aircraft have reached the prototype stage, one relying on solar recharging, the other using battery power recharged from the grid.

The aviation industry has often led the way in terms of developing new technologies that use fossil fuels more sparingly and efficiently. While this research will continue for economic and environmental reasons, fossil fuels will remain the primary fuel used in aviation for the foreseeable future. It is in the industry's interest to use the minimum fuel possible to deliver passengers safely to their destinations and consequently produce the least amount of emissions.

Given the above and the fact that Australia is unlikely to be a major manufacturer of airframes or engines in the medium term, operators should be encouraged to purchase the most modern aircraft possible. Modern aircraft are more fuel efficient and quieter. It is emphasised that they are significantly quieter than previous generations of aircraft and will be even quieter in the future. It is quite possible that within twenty years aircraft noise will cease to be a significant issue, if analysed objectively. This is not an idle claim but a research challenge that is being actively taken up by engineers worldwide.

However, modern aircraft are expensive, sometimes prohibitively so. If depreciation rates were increased significantly and capital gains tax relief introduced to encourage the purchase of newer, more efficient aircraft, this would enhance further emissions reductions. The environmental impact would be positive and accelerate the retirement of older, higher polluting aircraft. A similar initiative has been underway in the United States for some years which has resulted in the faster retirement of earlier generation aircraft.

The RAAA is conscious that an increase in demand for air services will provide further environmental challenges in that the increased miles flown will need to be offset by further technological and operational efficiency advances. The aviation industry is a natural partner in these environmental challenges in that even with the massive growth in domestic and international air travel over the past fifty years, emissions have remained under 2% of all CO₂ emissions.



However, given aviation's visibility which is in some ways disproportionate to its actual environmental impact, the RAAA and its aviation partners are resolved to continue to engage with all reasonable efforts to achieve a cleaner and sustainable environment. This resolve, however, does not extend to environmental policies with the potential to damage regional aviation businesses already on very tight margins.

The RAAA notes the ongoing and widespread debate amongst scientists as to whether man-made carbon emissions are the main driver of climate change. While acknowledging that climate change is occurring, the RAAA cautions the government in identifying carbon emissions as the primary or only cause, given that the science is still very unsettled on this matter. A large group of scientists identify changes in solar activity as a signifier of climate change with some scientists predicting a general, natural cooling of the planet after 2016. If the science is still so unsettled with respect to the causes of climate change, is it wise to build national economic policy around a potentially false premise? Is the government certain that man-made carbon emissions are driving climate change? If the government is not certain, it runs the risk of damaging the economy for no environmental gain.

The RAAA suggests that the government designs policies to encourage research and development that will lead to lessening the nation's reliance on fossil fuels, improving engine/fuel efficiencies and lessening the environmental impact of emissions from the combustion of the fuels. There is universal support for protecting and improving Australia's natural environment. Why put Australia's economic future at risk when a longer term, more considered approach would provide a sustainable environment and still meet the government's goals?

Policy measures such as research subsidies, voluntary agreements and carbon offsets may encourage industries to commit to lowering their emissions. The RAAA does not support punitive measures such as extra taxes or onerous regulations to underpin emission control.

Emissions Trading Scheme (ETS)

The RAAA notes the government's efforts to ameliorate the immediate effects of the ETS on the agricultural and fisheries industries. Will these efforts be extended to the regional aviation sector? If not, why not, given the significant effect the ETS may have on the industry?



It is likely that fuel costs will rise as fuel companies seek to pass on the costs of their carbon emission permits. Currently, fuel costs constitute 30-35% of total regional flight costs thus any rise in the cost of fuel will have a serious impact on the viability of regional air services, possibly causing some marginal routes to become loss-making. Fares will need to rise, possibly to levels that will destroy demand for the service. Given most regional operators enjoy small margins on their routes, the ETS has the potential to negatively and significantly impact on the regional aviation industry.

The RAAA argues strongly that the government should consider ETS compensatory arrangements for regional airlines in the short to medium term to ensure that regional communities and electorates continue to enjoy access to regular air services.

The number of regional routes has shrunk considerably over the past twenty years as regional operators have retired older, smaller less efficient aircraft and invested in larger, jet and turbo-prop aircraft. Total passenger numbers have doubled over the period even though the number of airports serviced has declined. RAAA members remain committed to providing a route structure to enable passengers to move between regional centres and the coastal cities. Intra-regional air services remain a goal but are increasingly unlikely if cost structures continue to rise.

It seems unreasonable, even illogical to the RAAA that relatively clean industries such as regional aviation will be penalised through higher fuel costs while heavy polluting industries such as coal and power generation will initially receive free carbon permits. Where is the incentive or compensation for industries that have been improving their efficiency with respect to fossil fuels over many years?

As stated above the regional aviation industry is supportive of measures to reduce pollution in all its forms but does not wish to be unfairly penalized in the process. It has been adjusting its emissions behavior constantly and yet there is little recognition that aviation has been a leader in this area for many years.

In analysing the different transport modes' environmental impact, has the government compared fixed point to point services as provided by trains and cars (via rails and roadways) with flexible point to point services as provided by aviation? In addition, how will the government measure the impact of the rail corridors being cut through forests, roads being paved over agricultural land including the resultant carbon/costs footprint? How do these footprints compare to the carbon footprint of a group of airports and the airlines that service those ports?

Is the government expecting major fluctuations in the carbon price? How will this affect downstream costs?



What will the government do with the revenue raised through the ETS? It is understood that most of the funds will go to compensate households but will there be research funds to ensure Australia becomes a leader in emissions mitigation? Why import technology if Australian scientists can develop value-adding mechanisms to reduce and/or store carbon?

A significant point is that the CPRS will not change aviation's behavior at all because it is an industry that is constantly trying to reduce its emissions with respect to each aircraft and each flight. In fact it leads the transport industry in improving fuel usage efficiency. However, fuel companies will pass on any costs they incur from the CPRS. There is nothing the aviation industry can do except wear it along with the myriad of new charges it is forced to pay to CASA, Airservices Australia, airfield operators and security providers to name a few. This could push some regional operators into a loss making situation.

One of the first rules of government is to do no harm. The RAAA is unsure if the CPRS meets this rule.

It is reiterated that the RAAA is committed to ensuring that future generations of Australians live in a clean and sustainable natural environment and that human behavior does not cause significant, negative climate change. The aviation industry is a natural partner in these goals and does not require extra, unnecessary imposts such as the CPRS to encourage it to pursue lower carbon emissions.

The government also needs to understand that regional operators run on very tight margins and are highly sensitive to new cost imposts. Comparatively, large emitters from the coal and power generation industries may have less difficulty in absorbing the costs of the CPRS, particularly given the government's offer of free permits. This is not the case for regional aviation operators and adjustment policies, at least in the short and medium term need to be strongly considered.

It is not overstating the case that the CPRS could remove most of the already small profit from the balance sheets of a significant number of regional aviation companies. This will translate into a loss of jobs and loss of services to regional communities.

Summary

As stated above the regional aviation industry is committed to Australia continuing to enjoy a clean and sustainable natural environment.

The industry also understands that most of the funds raised from the ETS will go to households to help them adjust to higher energy costs.



However, if revenue is being raised from the regional aviation industry through the ETS shouldn't some of that revenue be returned to the industry to fund aviation research? There are emerging emission reduction possibilities with respect to bio-fuels, airframes, engines, avionics, satellite navigation and air traffic management procedures. Australia can play a role in any or all of these areas if there is a commitment to invest in the research.

Rather than simply reducing emissions Australia can have a leading role in developing aviation technologies that will further reduce carbon emissions. These technologies can be exported, as well as creating jobs for Australian researchers and manufacturers.

The RAAA notes the recent Garnaut Report bases its recommendations on 'the balance of probabilities' that man-made carbon emissions are driving climate change. In short, Professor Garnaut is not certain with respect to the science around climate change. If the government's leading adviser on climate change is not sure of his assumptions, why risk an economy on a scientific possibility?

The industry is already burdened with a wide range of government charges. Many regional aviation participants view the CPRS as another government imposed burden, that is, a potentially dead weight tax.

The government has a natural environmental partner in the regional aviation industry and the aviation industry in general. By any analysis, there has no other industry in Australia or internationally that has done more to reduce its emissions.

To be a partner however the industry must be allowed, firstly to live, and then encouraged to thrive.

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