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QANTAS GROUP SUBMISSION ON THE SYDNEY AIRPORT DEMAND MANAGEMENT DISCUSSION PAPER

The Qantas Group (Qantas) welcomes the opportunity to comment on the Sydney Airport Demand Management (SADM) Discussion Paper.

Sydney Airport is a critical piece of national infrastructure and ensuring its capacity is utilised efficiently, competitively and sustainably for regional, domestic and international services must be a key priority for Government.

The Government's Discussion Paper comes at a critical juncture for the industry. Australian aviation has suffered profoundly as a result of the COVID-19 pandemic, with this year representing the most challenging in Qantas' 100 year history. The closure of state, territory and national borders which underpinned the health response to the crisis, resulted in the grounding of more than 200 Qantas Group aircraft, the standing down of 20,000 people and a cash burn of \$40 million per week.

The international aviation industry is not likely to return to pre-COVID levels until at least 2024¹, and is likely to face ongoing difficulties over the next four years and beyond. Accordingly, any shift in policy should be cautiously considered, and avoid negative consequences for an industry that has been effectively paralysed by an unprecedented crisis.

The SADM Act is grounded in a number of key policy objectives; balancing productivity, certainty and the encouragement of competition with a range of social considerations. These objectives and the SADM regime remain relevant and fit for purpose. In the absence of unambiguous evidence to the contrary, it is not clear that wholesale changes need to be made to the regime. Notwithstanding this, there are some changes that would facilitate the more efficient use of Sydney Airport. Qantas recommends:

- Stability and certainty in policy settings;
- Greater alignment with the Worldwide Airport Slot Guidelines (WASG), in line with other Australian and international airports;
- A single, independent slot coordinator should continue allocation of slots;
- Changes providing flexibility in the operational implementation of the movement cap to increase day of operations recoverability;

¹ IATA has forecast that global passenger traffic is not expected to return to pre-COVID19 levels until 2024, a year later than previously projected earlier this year. Additionally, IATA noted that Australia is recovering slowly from the steepest slump in domestic revenue per passenger kilometre of any large country, with a 94% drop compared to June 2019.

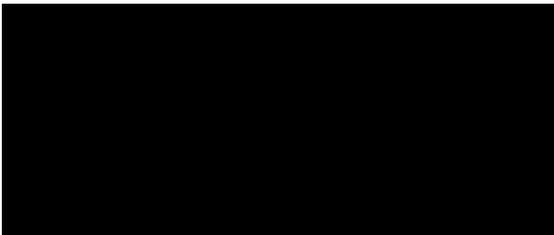


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- Maintaining the Regional Access Regime with changes to allow scheduling flexibility and more consistent regional schedules;
- Refining the force majeure exceptions in the SADM Act for justified non-utilisation of slots to clarify their applicability for exemptions from the 80:20 rule in the event of travel restrictions, border closures, mandatory quarantine requirements or caps on passenger numbers, including for a ramp up period after restrictions ease; and
- Resisting any bespoke Australian COVID-19 measures that differ to the WASG such as the forced return of slots by Direction or the creation of a 'Pandemic Recovery Pool.'

Qantas notes that the limited scope of the review, with the 80 movement cap, Sydney Airport Curfew Act and the broader Sydney Basin explicitly out of scope, represents a missed opportunity. Qantas considers that a comprehensive review with the potential for material improvements for known operational challenges and efficiency gains cannot be properly conducted without engaging with these issues.

Our substantive response to the Discussion Paper is set out in Appendix 1. Qantas looks forward to continued consultation with Government to ensure an understanding of the impacts, costs and benefits of all options contemplated in the Discussion Paper.



APPENDIX 1

MOVEMENT CAP

Questions for consideration:

- a) How would changes to the definition of a regulated hour (i.e. removing the rolling hour) impact stakeholders?
- b) Should any flights be excluded from the movement cap, while still providing a net benefit to the community? What impacts would this have?
- c) What means of publication would satisfy public accountability and transparency with respect to both breaches and non-breaches?

Qantas acknowledges the 80 movements an hour and rolling hour 21 movements in 15 minutes cap are designed to protect the community from adverse noise and are viewed as an important component of Sydney Airport's social licence to operate.² However, there remain significant opportunities for reform to improve efficiency and outcomes for the aviation industry and communities alike.

In its findings into the Economic Regulation of Airports, the Productivity Commission recommended the removal of a 'rolling hour' in the 80 movement cap.³ Resetting the regulated hour every 15 minutes during normal operations spreads the intensity of scheduled movements across the hour. However, when significant adverse weather events (such as thunderstorms, fog, high wind speeds or crosswinds) or infrastructure failures occur, the 15-minute movement cap acts as a material handbrake on the airport and airport operators executing operational recovery plans; compounding delays and driving higher cancellation rates in Sydney and across the regional and domestic network.

Further reforms to the implementation of the movement cap are necessary to give airlines the flexibility needed to recover from disruptions and reduce delays and cancellations caused or exacerbated by the current implementation of the movement cap, and ultimately improve the customer experience. In 2019, the average hourly runway arrivals capacity was lower in 55%⁴ of hour blocks compared with 2018. This was due to increased wind and storm events in 2019, which manifested in 14 additional days above 2018, with 59 days where the runway arrivals rate was materially disrupted for at least 2 hours.⁵

Extreme weather events, which are particularly difficult to recover from given the current implementation of the movement cap, are becoming more frequent, and this weather trajectory will only continue into the future,⁶ further adding to the constraints of the airport.

Figure 1.1 models hypothetical outcomes from different operational movement caps recovering the backlog of specific weather events based on scheduled airport movements compared to implementation of the current scheme. Significant improvements within a 2 hour window are achieved when the runway throughput is increased.

² Qantas response to the Productivity Commission's Inquiry into the Economic Regulation of Airports - https://www.pc.gov.au/__data/assets/pdf_file/0020/231383/sub048-airports.pdf

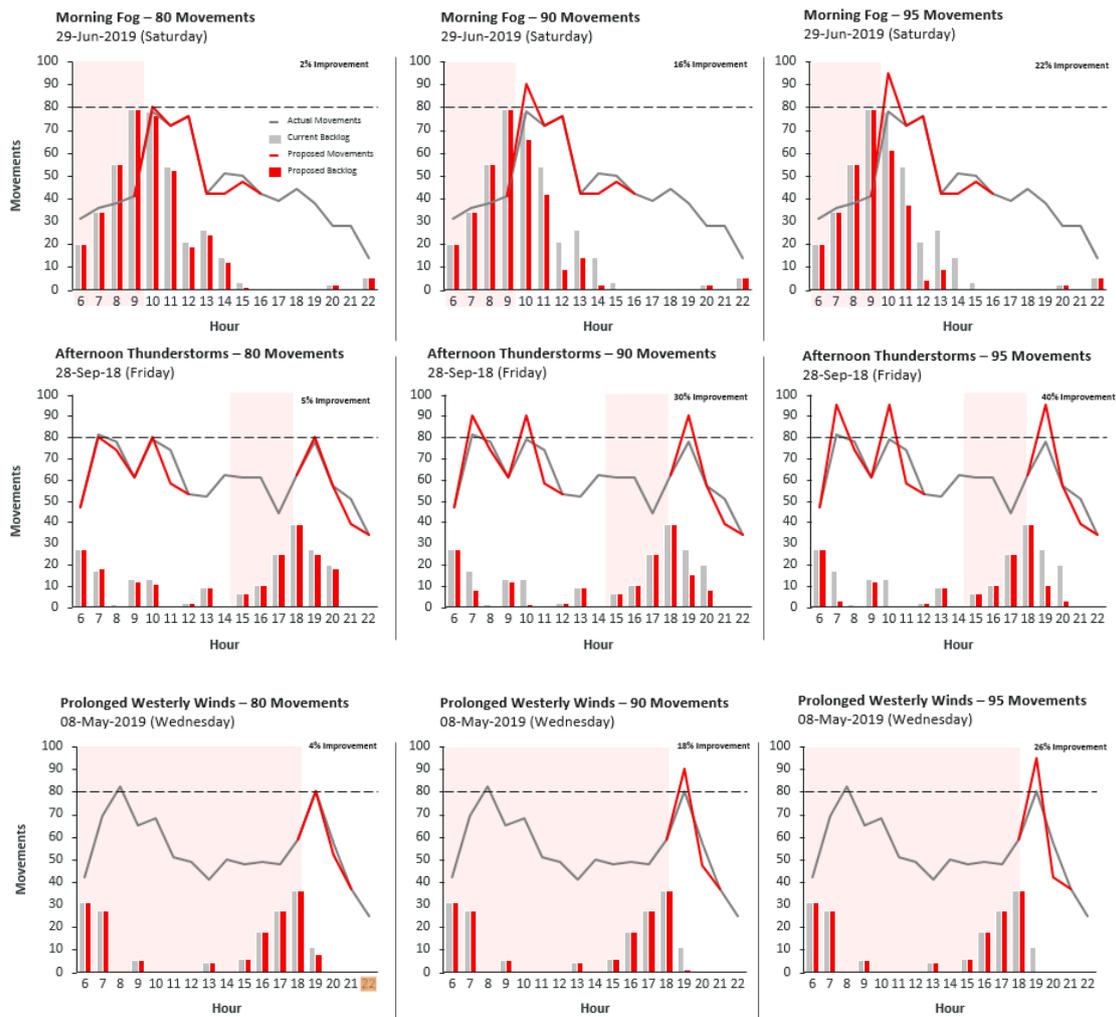
³ Economic Regulation of Airports- Productivity Commission Inquiry Report No 92, 21 June 2019.

⁴ MetCDM Arrival Availability Rate calculated nightly by Air Services Australia between hours of 6am to 10pm.

⁵ MetCDM Arrival Availability Rate dropped below 34 Arrival Movements for at Least 2 hours.

⁶ See IATA's report "The Impact of Climate Change on Aviation" April 2019

<https://www.iata.org/contentassets/0772118eec2e40bbba472b862e4f45ec/sfo2019-day3-climate-change.pdf>



Qantas urges the government to consider amendments that will provide more day of operations flexibility to managing delays and disruptions, while continuing to adhere to the original intention of averaging 80 movements in normal operations.

To this end, Qantas supports implementing and enforcing the movement cap through the scheduling and slot allocation process, as opposed to measuring actual movements. Under this approach, the existing Slot Compliance Committee would retain responsibility for ensuring day of operations compliance with scheduled slot times. Special consideration would be given in instances of uncontrollable non-compliance (e.g. delays caused by severe storms).

Given that movements are currently measured on an actual basis, in an instance of uncontrollable non-compliance, the airport is unable to 'catch up' movements if that would mean exceeding the movement cap. The proposed solution would better facilitate resilience and recovery from interruptions to airport operations by allowing the airport to 'catch up' on the number of delayed flights in the face of unavoidable disruptions. This change would ultimately increase airline punctuality and decrease holding times, fuel consumption and carbon emissions. From a customer perspective, this will result in fewer cancellations and/or reduced delay times trying to recover the schedule, reduced requirements for curfew exemption requests and a lower noise profile into the evening as the recovery trail is constrained. This amendment would enable a better balance between the competing objectives of the SADM regime in the face of uncontrollable disruptions.

If implementation based on scheduled, rather than actual movements is unable to be achieved, Qantas proposes the Government instead implement a mechanism to suspend the 80 movement cap for a period of no longer than 120 minutes proceeding significant adverse weather events or infrastructure failures at Sydney Airport. This can be triggered by Airservices Australia (ASA) operating modes (e.g. blue light, single runway operations and severe fog) and where resulting operational throughput has been reduced. To maintain community transparency, these triggerable events and recovered slot movements should be reported upon to confirm the operational value has been recouped.

This change would enable airport users to recover from operational stoppages or slowdowns and prevent cumulative delays at Sydney Airport and across the national network, unlocking a faster return to scheduled services, reductions in fuel burn and minimise the impact to OTP and cancellation rates. Furthermore, as this mechanism would reduce cumulative delays, it is expected to significantly reduce the reliance on curfew dispensations, therefore benefiting the local community through reducing noise into the evening.

This proposed amendment could only be utilised as a tool to deal with day of operation events and to accelerate recovery times, thereby reducing delays and cancellations. The proposed change would preserve the 80 movement cap and would not increase scheduled airline services.

In order to improve recoverability following weather events, Qantas has engaged with the Civil Aviation Safety Authority (CASA) about increasing crosswind thresholds from 20 to 25 knots and is working through a comprehensive safety case to support this position. Qantas is also working with Airservices Australia on broader initiatives such as OneSky to improve recoverability. However, there is a limit to the improvements of these initiatives can generate without changes to the SADM regime, particularly when it comes to cancellations.

Qantas considers that any change in the commercial peak capacity beyond the current 80 movement cap, without the changes to the implementation of the movement cap outlined above, would only serve to further contribute to airport congestion and exacerbate operational recovery times following external events. Without these changes, any movement away from the rolling 15 minute movement cap, condensing movements, would only further exacerbate delays.

Curfew Restrictions

While Qantas does not oppose the underlying principles of the Sydney Airport Curfew Act (Sydney Curfew), there are opportunities to improve the legislation, delivering more beneficial outcomes for airlines, airports and the community. We consider there is merit in amending curfew restrictions to include additional freighter aircraft types and improve dispensation guidelines to deliver added flexibility, especially in the face of extraordinary weather and infrastructure events.

As technology has advanced in the past 30 years, freight aircraft have become markedly quieter. In these circumstances, there is scope to explore changes to the Sydney Curfew to address operational challenges at Sydney Airport, specifically related to overnight freighters. The current restrictions on aircraft-type permitted to conduct overnight freighter operations are antiquated. At present, the only aircraft permitted to operate these important services is the BAe- 146, an aircraft that ceased production in 1993 and is now experiencing engineering and reliability challenges that can be reasonably expected of aircraft of that age.

Qantas proposes amendment of Section 13 of the Sydney Airport Curfew Act 1995 to include *'the operation of Chapter 4 built or modified Boeing 737 type or Airbus A320 family narrow body aircraft during the curfew period'*. These aircraft are Chapter 4 compliant, feature a narrower Australian Noise Exposure Forecast (ANEF) footprint, have reduced emissions intensity per tonne of freight and enable increased productivity per aircraft movement. When compared to the BAE-146, these aircraft deliver a significant community benefit in terms of noise reduction on flight paths to the south of the airport. This change is critical to

increasing the productivity of Australia's important overnight freight network. Under dispensation approvals Qantas has been operating up to 16 curfew movements a week using B737 freighter services since April 2020 and A321 freighters since August 2020. Based on the lack of feedback to the Sydney Airport Community Forum, there appears to have been no discernible impact to the community from these changes.

Additionally, consideration should be given to amending the Curfew Dispensation Guidelines at Sydney Airport to include weather, aircraft serviceability, security, safety, airport infrastructure constraints and force majeure provisions to better serve air travellers and the community at large. If there is no change to the movement cap, we anticipate an increase in the number of dispensation requests. Compared with 2017, there has been a 268% increase in curfew dispensation requests for 2019 to get into Sydney due to weather or Air Traffic Control (ATC) throughput.⁷

⁷ See <https://www.infrastructure.gov.au/aviation/environmental/curfews/CurfewDispensationReports/index.aspx>

SYDNEY AIRPORT REGIONAL ACCESS REGIME

Questions for consideration:

- d) Should the definition of 'regional service' be changed? Why or why not?
- e) Should the number of peak-period regional slots or the method for converting PRSS slots be revised? Why or why not?
- f) Should there be alignment of the number of peak-period regional slots in the winter and summer seasons?
- g) Does the defined peak period remain appropriate for regional slots?
- h) Is there a need for dedicated regional slots in off-peak periods?
- i) Should there be additional flexibility in allowing regional slots to be moved between peak and off peak periods?
- j) Are additional safeguards needed in order to implement the Productivity Commission recommendation that non-PRSS slots be allowed to be used for regional flights?
- k) Should there be further relaxation or other changes to the ACCC's price cap and monitoring regime?
- l) Are there adverse outcomes in implementing the Productivity Commission recommendation regarding the scope of future price declarations? Are specific safeguards needed to mitigate any impacts of implementing this recommendation?
- m) Are there any matters, not discussed already, which the Government should consider when developing any future Direction for regional price monitoring at Sydney Airport by the ACCC?

Qantas recognises the importance of connectivity for communities in regional New South Wales (NSW) and supports the preservation of the Sydney Airport regional access regime or Permanent Regional Service Series (PRSS).

Qantas considers that enabling and preserving connectivity with regional communities is not enough – access must also be provided at the right times. The regional access regime provides access during morning and afternoon peak periods, allowing consumers to travel for critical appointments in Sydney or regional cities and fly home the same day and facilitates efficient connections between regional flights to or from Sydney and flights between Sydney and the rest of Australia. This network connectivity ultimately supports regional tourism destinations as well as outbound connections for business and leisure travel by Australians from regional NSW.

There are a number of opportunities to improve airline services to regional communities in NSW while more effectively using the airport's productive capacity. PRSS peak periods are currently defined as 06:00-10:59 and 15:00-19:59 on weekdays. The definition of peak times should be amended in line with actual demand for slots. Based on an all-operator Slot Information Request (SIR) obtained from the Slot Manager for NW19, only 61% of weekday slots between 06:00-06:59 were allocated. This compares to 96% of weekday slots between 07:00-10:59. Similarly, only 74% of weekday slots between 15:00-16:59 and only 79% of weekday slots between 19:00-19:59 were allocated. This compares to 96% of weekday slots between 17:00-18:59. Given these differences, Qantas proposes redefining the PRSS peak periods to 07:00-10:59 and 17:00-18:59, when the airport is most slot-constrained.

In addition to redefining the peaks, Qantas proposes that the number of PRSS slots allocated to peak periods is made consistent across each weekday and across each scheduling season, and that the number of PRSS slots is allocated to each morning and afternoon peak collectively, instead of hour by hour. These changes will simplify the implementation of the regional access regime, allow for improved scheduling flexibility within the peaks and support a more efficient use of airport infrastructure, while continuing to preserve access for regional NSW communities at the peak times.

Furthermore, Qantas proposes that the 30-minute time constraint within which a PRSS slot can be swapped with a non-PRSS slot be eliminated. The current rule leads to fragmented schedules on certain markets. For example, given its current PRSS slot holdings, Qantas has an inconsistent schedule for Wagga Wagga in NS21, with a 07:00 departure on Mondays and Thursdays, a 07:25 departure on Fridays, and an 08:10 departure on Tuesdays, Wednesdays and Saturdays. If the 30-minute time constraint were eliminated, Qantas could make swaps to align the departure times across the week. These changes will increase scheduling flexibility for airlines and allow them to better serve regional communities with more consistent schedules across the week.

Given the high utilisation of PRSS slots at the proposed redefined peak periods, Qantas broadly supports maintaining the current allocation of PRSS slots. Reducing the number of peak-period regional slots materially will harm regional NSW communities by reducing guaranteed services. Qantas also supports additional flexibility by allowing airlines to operate regional services using non-PRSS slots during peak periods. Data obtained from the Slot Manager for NW19⁸ indicates that no PRSS slots were available at peak times consistently throughout the week despite there being non-PRSS slots available. Eliminating the requirement that regional services during peak periods be operated only with PRSS slots will give airlines flexibility to grow services to regional NSW communities.

Outside of peak periods, there should be no differentiation between regional versus non-regional slots. This is because the demand for off-peak slots is generally well below supply. Redefining the peak periods and ensuring off-peak slots are not defined as regional or non-regional will both protect regional services where there is high demand for slots, while allowing more flexibility when demand for slots is less than supply.

Qantas does not support allowing PRSS slots to be moved between peak and off peak periods. As set out above, these slots enable and preserve connectivity with regional communities at the right times. Allowing these services to be moved from peak to non-peak periods will negatively impact the quality of access and connectivity provided between Sydney and regional NSW communities.

For similar reasons, Qantas also does not support changing the definition of 'regional service' as any such change would not serve the regime's objective of guaranteeing required access for flights between Sydney and regional NSW. Changing the definition of what constitutes a 'regional service' would only serve to dilute the benefits for the regime's intended recipients.

Price Cap and Notification Regime

Qantas considers the current price cap regime is fit for purpose and has been largely successful in providing and preserving regional connectivity into Sydney Airport. We note the Discussion Paper considers price increases for regional operations above CPI. Such a change would be problematic in the current market, given the significant industry recovery needed following the COVID-19 pandemic. The next few years are already going to be challenging for the industry, and regional aviation will already be impacted by significantly increased costs associated with security under-recoveries and the implementation of the enhanced security screening measures.

The Discussion Paper raises the possibility of the removal the notification process for any airline where a commercial agreement is reached with an airport. Reaching commercial agreement with an airport should not be the test to determine notification, as the agreed outcome may continue to be the price cap regime.

⁸ Publicly available data shows that there were peak period slots available on each day of the week between 06:00 and 06:55, and from 15:00 until 16:40. See slot availability chart:
http://www.airportcoordination.org/wp-content/uploads/2020/02/W19-NAC-CHART_SYD_17.09.19-1.pdf

SLOT MANAGEMENT

Questions for consideration:

- n) How significant is the impact of implementing a bespoke slot scheme for Sydney Airport? Is there a reason to implement a slot management scheme that is substantially different from the WASG? What challenges do inconsistencies between the WASG and Legislation create?
- o) What risks and opportunities could be realised by adopting the WASG?
- p) Do the allocation priorities in the Legislation, including historical precedence, remain appropriate? Should they be aligned with the WASG or be otherwise amended to fulfil the varied objectives of demand management? If so, how? Please provide your rationale
- q) Should the definition of a new entrant align with the definition used in the WASG? Why or why not?
- r) Do the current arrangements create specific barriers to new entrants or airlines expanding services at Sydney Airport? Are there any changes that should be made to reduce these barriers?
- s) Should the 'size of aircraft' rule be retained? If so, what rationale or application criteria should be used?
- t) What considerations should be given for an effective compliance scheme?
- u) Does the focus of compliance being on off-slot and no-slot movements remain appropriate? Should slot management at Sydney Airport include compliance provisions for broader aspects, such as the actions the WASG consider to be slot misuse? If so, would this support the objectives of demand management being met?
- v) Are the penalties, if implemented, significant enough to encourage compliance? Are there alternative compliance mechanisms which could be considered?
- w) Do you have any comments on the Ministerial Direction provision in the Act?
- x) Does it remain appropriate for the Slot Manager and Compliance Committee to be principal instigators for changes to the slot scheme and compliance scheme?
- y) Given the maturity of slot management and the WASG, does the scope of the Slot Manager's functions remain appropriate?
- z) What process should be undertaken to identify and appoint a Slot Manager and how often should the position be reviewed?
- aa) Does the current definition of a slot (and associated terms and processes) in the Legislation ensure the most efficient use of the infrastructure and implementation of the movement cap?
- bb) What opportunities and risks could arise from closer alignment to the WASG inferred approach to slot coordination (i.e. a single entity to make slot allocations which reflect all airport capacity factors)?
- cc) Do the record keeping requirements provide the appropriate balance between treatment of any commercially sensitive information and providing sufficient transparency to afford stakeholders confidence slots are being managed appropriately?
- dd) Should there be a legislated framework for handling influxes of returned slots due to significant industry disruptions?

The air transport industry is a complex network of routes relying on global connectivity and consistency in rules and procedures. Irrespective of jurisdiction, global slot allocation principles underlying the rules and procedures for slot allocation are designed to ensure slots are allocated in an open, fair, transparent and non-discriminatory manner by a slot coordinator acting independently. The process works to serve all airlines fairly and transparently to ensure equal access and competition.

Slot allocation is a process by which permission is given for a planned use of all airport infrastructure necessary to arrive or depart on a specific date and time at a congested airport. This includes all terminal facilities, gates, aprons, runways and other associated airport infrastructure. This process ensures existing infrastructure can accommodate planned flights.

According to the International Air Transport Association (IATA), each year, over 1.5 billion passengers or 43% of global traffic - depart from over 200 slot coordinated airports.⁹ The number of slot coordinated airports is expected to grow significantly due to a lack of expansion in airport infrastructure to cope with increasing demand.¹⁰ As a consequence of this, the Worldwide Slot Guidelines (WSG), subsequently replaced by the Worldwide Airport Slot Guidelines (WASG), were created to provide the industry with a single set of guidelines for airport slot management and allocation, allowing airlines to retain slots based on historic precedence, while ensuring access for new entrants. The slot planning process underpins the industry's ability to plan operations to the world's most congested airports. The WASG is supported by IATA, the Airports Council International (ACI) and the Worldwide Airport Coordinators Group (WACG).

The SADM Act is closely aligned to the previous WSG. The differences between Sydney Airport's slot management scheme and the WASG do not present a significant challenge for operators, as many slot schemes around the world vary in some respects to the WASG to reflect local airport conditions, infrastructure and noise schemes. On this basis, Qantas considers the current slot scheme at Sydney Airport is effective, fit for purpose and aligned to international best practice through its broad adherence to the WASG. Qantas supports changes to the SADM Act to reflect updates to the WSG/WASG since the legislation was passed, as well as changes to clarify certain elements of the SADM Act. These include:

1. Ensuring slots are deemed as operated if planned movements do not occur due to movement cap restrictions (e.g. severe weather). The movement cap restrictions resulting in uncontrollable non-compliance are driven by events outside of the control of airlines. Legislation should ensure that airlines are not penalised under the 'use it or lose it' rule;
2. Removal of the 'size of aircraft' rule, as it is not a part of WASG and removing it will enhance the efficiency of the administration of the slot scheme and allow airlines the flexibility needed to respond to increases or decreases in demand with the appropriate size aircraft;
3. Alignment with the WASG definition of a Slot which will allow for consistency in legal definitions across jurisdictions;
4. Alignment with WASG on the definition of a New Entrant, which will allow for consistency in New Entrant classification at both ends of a potential new route. It should be noted that slots are readily available at Sydney Airport. Based on an all-operator Slot Information Request (SIR) obtained from the Slot Manager for NW19, on average Sydney Airport had over 300 slots available per day for use by new entrants or expanded operations by incumbent operators. Sydney Airport has ample capacity available and consistent with the global industry approach, it is not a right of new entrants to receive their preferred slot timings from the outset, but rather accept non-preferred timings and work season by season to improve them;
5. A single coordinator responsible for coordinating the full range of the airport's infrastructure, such as runway, gate and terminal. This is the approach used in the vast majority of airports around the world and ensures operational efficiency and (global) consistency for airlines. A very limited number of airports in the United States, such as New York (JFK) have a model that has separate runway and terminal managers, and this creates inefficiencies such as being able to attain a runway slot, but not being able to get a terminal slot at the same time. Closer alignment with the WASG on slot coordination will ensure efficiency in the coordination process, preventing the need for airlines to obtain approvals from multiple entities and ensure that slots are allocated in a fair and impartial manner;
6. Implementation of an online coordination platform which would ensure transparent, equal, and fair access to information for all parties. Such platforms exist in many countries, including the United Kingdom, New Zealand, UAE, Switzerland, France, Germany, Spain and the Netherlands. This allows greater efficiency in the slot allocation and coordination process; and

⁹ <https://www.iata.org/en/policy/slots/>

¹⁰ <https://www.iata.org/en/policy/slots/>

7. Implementation of a coordination committee, with a slot performance committee reporting to it. Such a committee would give advice on coordination matters in a consultative manner, review capacity declarations and could assist in resolution of disputes concerning coordination matters. It would also allow for greater transparency and access to information and performance of ACA as the slot coordinator at Sydney Airport. Over time, many of the countries who have adopted such an approach have scaled back their committee meetings as online platforms have evolved, as quality and targeted data has become more available and airport operations have become more efficient. The same may ultimately be possible in Sydney.

Qantas does not support the Slot Manager developing and amending the slot management scheme, as Qantas considers this the responsibility of the Government and based upon consultation with the aviation community, ideally through an established Coordination Committee.

While Qantas supports the aforementioned changes which bring the SADM Act in line with the WASG, Qantas opposes any regulatory change that would make the SADM Act deviate further from the WASG (for instance, changing the 80:20 rule to include a higher rate of usage in order to retain slots).

80:20 rule

The 80:20 rule under the WASG (and mirrored in the SADM Act) requires airlines to use their slots at least 80 per cent of the time in order to retain them for the following year's scheduling season. In circumstances where a slot is used less than 80 per cent of the time without accepted justification, the slot is not returned to the airline, thereby losing its 'historical' access. Qantas had over 99% of slots allocated to it returned at Sydney Airport last season. This demonstrates that Qantas utilises the slots allocated to it.

The current 80:20 rule provides flexibility for airlines to retain slots in the event of unavoidable cancellations. Qantas does not support a change in the threshold of the 'use it or lose it' rule, on the basis that airlines require flexibility to operate satisfactory schedules and that it would be a divergence from the internationally recognised standard, creating misalignment between Australia's slot scheme and the rest of the world.

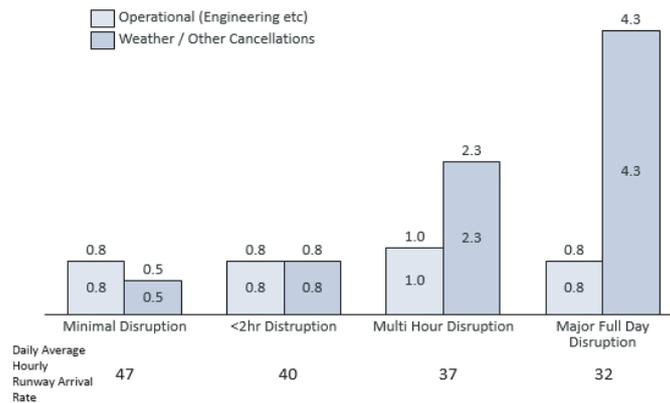
Qantas is aware that there have been allegations of 'slot hoarding' levelled at a number of incumbent airlines and the suggestion that this gives rise for a need to adjust the 80:20 rule. As set out above, Qantas is utilising its slots in accordance with the rule and strongly denies suggestions of impropriety. Where cancellations occur, they are primarily due to factors outside of the airline's control. These include weather events such as fog, storms and wind (at Sydney Airport, as well as other airports, e.g. Brisbane and Melbourne, which has a flow on effect to Sydney Airport) and operational cancellations, such as unscheduled engineering events resulting in Aircraft on Ground (AOG).

Table 1.2¹¹ illustrates that in 2018/2019 Qantas experienced a correlation between airport runway capacity driven by weather and the resulting cancellation rate. As discussed above, there was a material increase of weather events impacting runway capacity in 2019 compared to 2018, accounting for the 1.0ppt¹² increase in cancellations year on year. This compares to a relatively static engineering profile, of which 40% of cancellations do not touch Sydney Airport and are roughly proportionate to the distribution of Qantas domestic services and include unscheduled events such as aircraft damage (e.g. from lightning strikes).

¹¹ Qantas Internal Data for B737 Fleet, 2018 and 2019, allocated between Operational Events and Weather.

¹² CY29 vs CY20 Cancellations vs Published Services for Qantas Group
https://www.bitre.gov.au/publications/ongoing/airline_on_time_monthly

Table 1.1: QF Percent of Cancellations based on SYD Runway Arrival Capacity
8737 Fleet, CY18 & 19 Cancellations vs Scheduled Departures



It has been informally contended that Sydney Airport’s cancellation profile is high in comparison to other major airports. On certain days, on some routes in Sydney, up to 15% of services have been cancelled. It is important to note that Sydney Airport has a different flight composition to many other airports around the world, given Australia’s significant domestic market and frequency mix (SYD/MEL was the 2nd highest frequency route in the world in 2019), a lower density of operator mix (52 different RPT operators in 2019 compared with an average of 100 comparable major city gateways)¹³ and the fact that Sydney Airport is subject to a curfew.

It is common practice in aviation that in the event of a cancellation, carriers offering higher frequencies can provide customers shorter delays to their journey when compared to single frequency, typically international operations, by cancelling and consolidating capacity. The cost of accommodating cancelled passengers is also significantly lower on a domestic service compared to an international service.

When a weather event occurs, Qantas utilises an optimal cancellation profile in order to minimise the effect and cost on the airline and ultimately customers. Qantas will prioritise routes where there is an alternative reaccommodation option to reduce the length of customer delay. This explains the higher cancellation rate on trunk routes where a greater number of flights are offered and there is a greater opportunity to reaccommodate passengers on a same day service. In fact, over 75% of Qantas’ cancellations in CY2018 and CY2019 were explained by routes with more than 10 daily frequencies. Such an option protects low frequency routes while using high frequency routes where loads can be consolidated and total delay times to customers can be reduced. This results in specific routes seeing higher cancellation rates on specific days, but this is commensurate with the frequency of those services. The 2019 domestic cancellation rate on routes with less than 1 daily scheduled service was only 1.1%, compared with 1.9% for frequencies greater than 1 per day and 7.4% for frequencies of 1 per hour.

Increasing the threshold for the ‘use it or lose it’ rule will not solve this issue. Instead increasing the threshold to 90:10 or similar, will force airlines to operate a slot that doesn’t drive a better customer outcome and lead to inefficiencies. Without any reference to the cause or reasons of delay, an additional 11% of Qantas slots¹⁴ cancelled across a week would be triggered at this higher threshold on 2019 data. Qantas would still expect to receive slot alleviation due to the primary driver being justifiable events such as weather.

¹³ Average Number of Operators into Major gateway Airports with notable domestic operation: BKK (Bangkok), CDG (Paris), JFK (New York), LHR (London), NRT (Tokyo), PEK (Beijing) & PVG (Shanghai).

¹⁴ Increasing the threshold to 90:10 would have signified an additional 11% of Qantas slots (Qantas Airways Limited and QantasLink) not falling under the threshold (based on NS19 data).

COVID-19 IMPACTS

Questions for consideration:

- ee) While recovering from the impacts of the COVID-19 pandemic, how important is providing certainty for existing airlines, versus creating opportunities for new and/or expanding airlines?
- ff) Given the unpredictable recovery period, should further measures relating to slot allocations be considered in response to COVID-19? What are reasonable indicators for further support in response to the COVID-19 pandemic?
- gg) Which option, option variant or alternate approach is reasonable? Please provide your rationale.
- hh) If further interim measures are implemented in response to COVID-19, should they only apply to peak period slots?
- ii) Would you support the establishment of a Pandemic Recovery Pool of slots? Why or why not? What parameters would make it most effective?

Slot waivers have been granted globally for NS20 and NW20 to provide the industry with certainty and flexibility while restrictions or impediments to travel are in place. These waivers ensure that airlines can focus on operating where there is demand, and do not need to be concerned with losing slots as a result of government imposed border closures, travel restrictions or quarantine requirements which are underpinning the public health response to the pandemic.

With the exception of limited bubbles, international travel is likely to be negligible for some time, with IATA anticipating it is unlikely to return to pre-COVID levels until at least 2024.¹⁵ The domestic recovery, while highly dependent on State borders being open, will be well ahead of international. Qantas anticipates that it will need more slots than pre-COVID as a result of increased domestic demand with international borders closed and efforts to ensure that the right gauge of aircraft is used on each route.

The waivers provided by the Ministerial Direction were a critical response to an industry in crisis and operated as neither a disincentive to recommencing operations nor a limitation on competition going forward. Assuming state borders remain open, the Australian domestic market, as distinct from most other markets around the world, is expected to support a fairly high percentage of pre-COVID capacity. Therefore, an ongoing waiver for the domestic market is no longer necessary.

However, Qantas does support broadening the 'force majeure' provisions within the SADM Act to ensure that airlines are exempt from the 80:20 rule in circumstances where they are unable to operate due to government imposed travel restrictions, border closures, mandatory quarantine requirements or caps on passenger numbers, including for a ramp-up period after restrictions ease. This solution acknowledges the impact that border closures continue to have on the airline industry, effectively extending the slot waiver for flights serving international jurisdictions and providing certainty that border closures will not cause airlines to lose slots, while eliminating inefficiencies which could arise from airlines retaining slots not intended to be used.

In addition, Qantas recognises that a process must be developed with the Slot Manager to allow airlines to hand back slots and pre-emptively receive alleviation for justified non-utilisation. This would enable airlines to hand back slots that they know will not be operated due to ongoing restrictions or impediments to travel, instead of holding onto the slots and receiving alleviation for justified non-utilisation after the fact. This would ensure efficient use of airport capacity by providing opportunity for those slots handed back to be reallocated.

¹⁵IATA have forecast that global passenger traffic is not expected to return to pre-COVID19 levels until 2024, a year later than previously projected earlier this year. Additionally, IATA noted that Australia is recovering slowly from the steepest slump in domestic revenue per passenger kilometre of any large country, with a 94% drop compared to June 2019.

Clarifying changes to the force majeure provisions must be drafted broadly enough to encapsulate events other than the COVID-19 pandemic. For example, events such as the 2010 Icelandic volcano eruption, which caused significant disruption to air travel across the world, would need to be caught.

Beyond clarifying the force majeure provisions, no further changes that are specific to the recovery from the COVID-19 pandemic are necessary. Qantas strongly opposes the return of slots by Direction and the establishment of a Pandemic Recovery Pool.

Returning slots by Direction would cause significant and unnecessary damage to airline schedules and connectivity, particularly at a time when Qantas intends to operate a full domestic schedule assuming state borders remain open. Precisely timed slots build efficient connections and are particularly important for consumers travelling through hub airports, such as Sydney. Requiring airlines to return slots would cause significant damage to airline connectivity, hurting the airlines and ultimately the businesses, communities and consumers that rely on airline connectivity to access destinations and markets across Australia and the world.

The establishment of a Pandemic Recovery Pool would have the effect of unnecessarily disadvantaging existing airlines and distorting the balance between the competing objectives the SADM Act embodies. The SADM Act already has fair and transparent processes in place to reallocate slots consistent with its objectives, which includes both providing certainty of slots for incumbent airlines and encouraging competition through making slots available for new entrants. To this end, when offering slots, the Slot Manager must ensure that as close to the first 50% of the slots applied for by both a new entrant and another operator are offered to the new entrant. Given the existing legislation's effectiveness in serving its objectives and allocating slots in a fair and transparent manner, Qantas opposes any further changes to the allocation scheme proposed in the context of recovery from COVID-19.

SUNSETTING CONSIDERATIONS

Questions for consideration:

- jj) Are the objectives of the Legislation clear and relevant? Are there non-regulatory approaches to achieve the intended objectives?
- kk) Are there opportunities, not already considered in this paper, which could make the Legislation simpler, clearer and easier to read? Do definitions and processes align with business practices?
- ll) Would consolidating the Legislation into fewer instruments reduce complexity?
- mm) What are the regulatory impacts imposed on you and how could they be reduced?

Qantas considers the current framework is adequate given the complex nature of the subject matter.

Qantas opposes including the scheme within the Act, as this would make any necessary amendments difficult and more time consuming to achieve, and would likely just be a transplant of current wording from the scheme directly into the Act, not necessarily reducing any of the complexities around the current scheme. We consider the scheme is easy to read and user friendly, with no further changes necessary, outside the issues raised in earlier sections of this response.