



10 May 2011

Mr Shon Fletcher  
Committee Secretary  
Select Committee on the  
Scrutiny of New Taxes  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Mr Fletcher

**Inquiry into Carbon Tax Pricing Mechanisms**

I refer to an email of 4 April 2011 to Qantas' Head of Environment, Peter Broschofsky, inviting Qantas to provide a submission in relation to the above inquiry.

The Qantas Group welcomes the opportunity to participate in the inquiry into carbon tax pricing mechanisms. We are committed to minimising the environmental impact of our operations and have implemented a range of initiatives to reduce our emissions.

We would be pleased to provide any further information if it would be of assistance.

Yours sincerely

**Robert Wood**  
Head of Government and International Relations  
Qantas Airways Limited



**QANTAS GROUP SUBMISSION  
SENATE SELECT COMMITTEE ON NEW TAXES  
INQUIRY INTO CARBON TAX PRICING MECHANISMS**

The Qantas Group is committed to reducing the environmental impact of our business and has implemented processes and policies which give positive effect to that commitment. We have set challenging performance improvement targets including a 1.5 per cent improvement per annum in fuel efficiency per revenue tonne kilometre to 2020. Beyond 2020, the global airline industry through the International Air Transport Association (IATA) is targeting carbon neutral growth and aims to reduce net emissions by 50 per cent by 2050 compared to 2005 levels.

As fuel consumption represents our largest environmental impact – over 95 per cent of our total carbon footprint – initiatives which reduce our fuel consumption and improve our operating efficiency are critical to the Qantas Group. The Qantas Group's fuel efficiency program has delivered significant improvements in the performance of our existing fleet. In 2005, we introduced a fuel conservation program that has saved over one million tonnes of carbon emissions to date.

New aircraft technology will play an important role in reducing the greenhouse gas emissions produced by Australia's aviation industry. The Qantas Group has made a significant investment in a new generation of cleaner, highly fuel efficient aircraft worth over \$20 billion, including the latest airframe and engine designs.

The Qantas Group also remains actively engaged in the promotion and development of sustainable aviation fuel. Qantas has chosen two industry leading collaboration partners – Solazyme and Solena – to assess the feasibility of various new technologies for the development of sustainable aviation fuel in Australia. Qantas is also a member of the Sustainable Aviation Fuel Users Group (SAFUG), a global group of leading airlines and aviation companies working together with scientific agencies and leading environmental non-government organisations to accelerate the commercialisation of sustainable aviation fuels.

Carbon offsetting is another element of the Qantas Group's response to climate change. In September 2007, the Qantas Group launched a Carbon Offset Program that allows Qantas and Jetstar passengers to calculate and offset their share of flight emissions when making a booking. The Qantas Group also offsets emissions generated by employee work travel and ground vehicles. In total, close to 300,000 tonnes of carbon emissions were offset in 2008/09. Since 2007, the voluntary program has been responsible for almost 900,000 tonnes of carbon offsets.

The Qantas Group has been acknowledged in the 2010 Carbon Disclosure Project Leadership Index for Australia and New Zealand, which is an independent initiative of the leading carbon disclosure companies on behalf of more than 500 institutional investors globally. The Group is the only industrial company to be included in the top 10 companies on the 2010 Carbon Performance Leaders list.

While these initiatives have been highly successful there nevertheless are limited opportunities for airlines to further reduce emissions. The greatest potential for reductions is through continuing investment in fuel efficient aircraft with lower carbon outputs; improvements in air traffic management; adopting new technologies and the commercialisation of sustainable aviation fuels.

The Qantas Group has remained committed to being environmentally responsible during a time when the aviation industry is facing significant commercial and structural challenges. These challenges include highly disruptive externalities and shocks beyond the control of the industry, which will almost certainly continue.

Aviation supports the similarly volatile tourism sector, which has recently been effected by unprecedented weather events, the negative impact of an Australian dollar at record levels and structural challenges. As one of the major employers in Australia and an important contributor to the regional economy, the tourism industry will require time to adjust to a new carbon charge.

The Qantas Group's preferred method for the management of aviation emissions is a global scheme under the auspices of the United Nations. This would mitigate the competitive distortions inherent in the application of regional and individual schemes to flights.

In the absence of a global standard system, the Qantas Group supports the Government's decision to introduce a carbon price mechanism to manage climate change and stimulate economic activity. However, there is a risk that a carbon price mechanism will introduce considerable costs for the tourism and aviation sectors at a time when both sectors are under significant stress. In the Group's view, the Government can mitigate these risks by ensuring the scheme is fair, reasonable, broadly based and without market distortion.

*b) Short and long term impacts of a carbon tax, or any other mechanism to put a price on carbon, on the economy, industry, trade, jobs, investment, the cost of living etc*

There are considerable challenges for airlines to effectively manage the additional cost of a carbon price mechanism, particularly during its initial introduction.

The aviation industry is currently facing significant increases in costs with jet fuel prices rising by 25 per cent since November 2010. According to the International Air Transport Association (IATA), the global airline industry's fuel bill is forecast to total \$166 billion in 2011 – an increase of \$27 billion over 2010. As the industry faced considerable pressure from rising jet fuel prices in 2008, it is expected that the volatility of the price of fuel will continue.

Fuel is the largest cost for the Qantas Group with the cost of fuel estimated to be approximately \$3.7 billion this year. As one of Australia's largest single fuel users, there will be a significant and on-going cost implication for the Qantas Group with the introduction of a carbon price.

Although surcharges are used to offset increases in the price of fuel, they do not compensate for increases in the Qantas Group's fuel costs. The revised fuel surcharges that were recently announced cover less than half the increase in fuel cost for Qantas' international business next year. While additional measures, such as reducing domestic and international capacity, fleet changes and increasing fuel efficiency, are and will continue to remain an important feature of the operating environment, a significant gap remains.

The Qantas Group is also subject to a further carbon liability as aviation is included in a number of other carbon schemes in jurisdictions that the Group operates to, including New Zealand and the European Union.

In the absence of details on the price on carbon, it is difficult to determine the short and long term impacts of a cost on carbon. However, as the ability of airlines to offset the introduction of a carbon cost is limited we anticipate that the impact on domestic aviation is likely to be significant. The introduction of a carbon price will effectively increase the cost base of airlines and add further pressure to the aviation and tourism sectors, which are already subject to numerous external shocks. In these circumstances care must be taken in the design of the scheme to ensure that appropriate mechanisms exist to assist in the initial imposition of the scheme for those industries that are emissions intensive but that do not meet the definitions for upfront emission-intensive and trade exposed (EITE) assistance.

The Qantas Group believes that the phased imposition approach adopted in other jurisdictions that have implemented emissions trading schemes (such as the European Union and New Zealand) provide useful guidance as to how to manage this transition.

*d) The likely effectiveness of these taxes and related policies in achieving their stated policy objectives*

The details of the proposed hybrid model to put a price on carbon are currently being developed by the Australian Government. The Qantas Group has been engaged in the process as a member of the Business Roundtable on Climate Change and will be participating in consultations on the proposed architecture and implementation arrangements for a carbon pricing mechanism.

The Qantas Group has identified the following key design principles to guide the development of an effective and appropriate policy approach to reduce carbon emissions –

- Clearly defined emissions reduction targets at an aggregate, economy wide level and details on how the government intends to achieve these targets.
- Broad application across industries to create a level playing field and less market distortion to ensure maintenance of Australia's international competitiveness.
- The ability for business to meet its carbon liabilities at the lowest possible cost, including access to international abatement credits.
- Appropriate transitional arrangements to emissions intensive businesses not considered EITE sectors.
- Further clarity around the triggers for transitioning from a fixed to a flexible price as this will have implications for investment decisions.

The Qantas Group believes that any legislative response to reduce emissions must be designed to maintain the competitiveness of Australian industry and be achieved at the lowest possible cost to business. The Qantas Group considers that a market-based system, with access to international abatements, is ultimately the best structure to achieve these outcomes.

In the Qantas Group's view, it is important that various policy settings complement each other to foster Australian industries that are environmentally sustainable and internationally competitive. Climate change policies, taxation reform, decisions on broader infrastructure developments and integration and the development of a local sustainable fuels industry will all play an important role.

The effective transition of the aviation industry to a low carbon economy will require long term structural change. The Qantas Group has identified a number of initiatives, which do not involve compensation or financial support that could be progressed to provide significant efficiency benefits for the industry and the broader economy. Such transition, particularly in the short term, will be very costly. Therefore, in designing a carbon price mechanism, the Qantas Group would like to see a scheme as it relates to aviation introduced on a transitional basis over a short period of time. The European Union adopted a similar approach to aviation with the introduction of the Emissions Trading System providing transitional assistance to the sector for the commencement in 2012 until the end of the fourth trading period in 2020. Full exposure of aviation from the commencement of the scheme would result in unfavourable outcomes in two of the important Australian industries – tourism and aviation.

Broader policy implementation and reform would further enhance the ability of the aviation industry to transition to a low carbon economy. For example, taxation reform and improvements in air traffic management would provide a range of benefits including significant efficiency dividends and substantial carbon reductions for the industry and the broader economy.

Improvements in air traffic management have the potential to deliver significant operational benefits to air transport. The Qantas Group is working with air traffic managers in Australia and around the world to establish new navigational routes, approach paths and airborne holding procedures that will reduce flight times. These improvements promise to improve fuel efficiency and reduce related emissions. However, Government assistance is required to achieve these environmental and safety benefits.

Assistance will also be required for capital intensive businesses such as aviation to transition to low emission technology. While the Qantas Group has invested significantly in more fuel efficient aircraft, the Government can encourage further capital investment in technology with less carbon outputs by providing "green" taxation concessions and loan guarantees. Similar incentives would also assist the development and commercialisation of sustainable aviation fuels.