
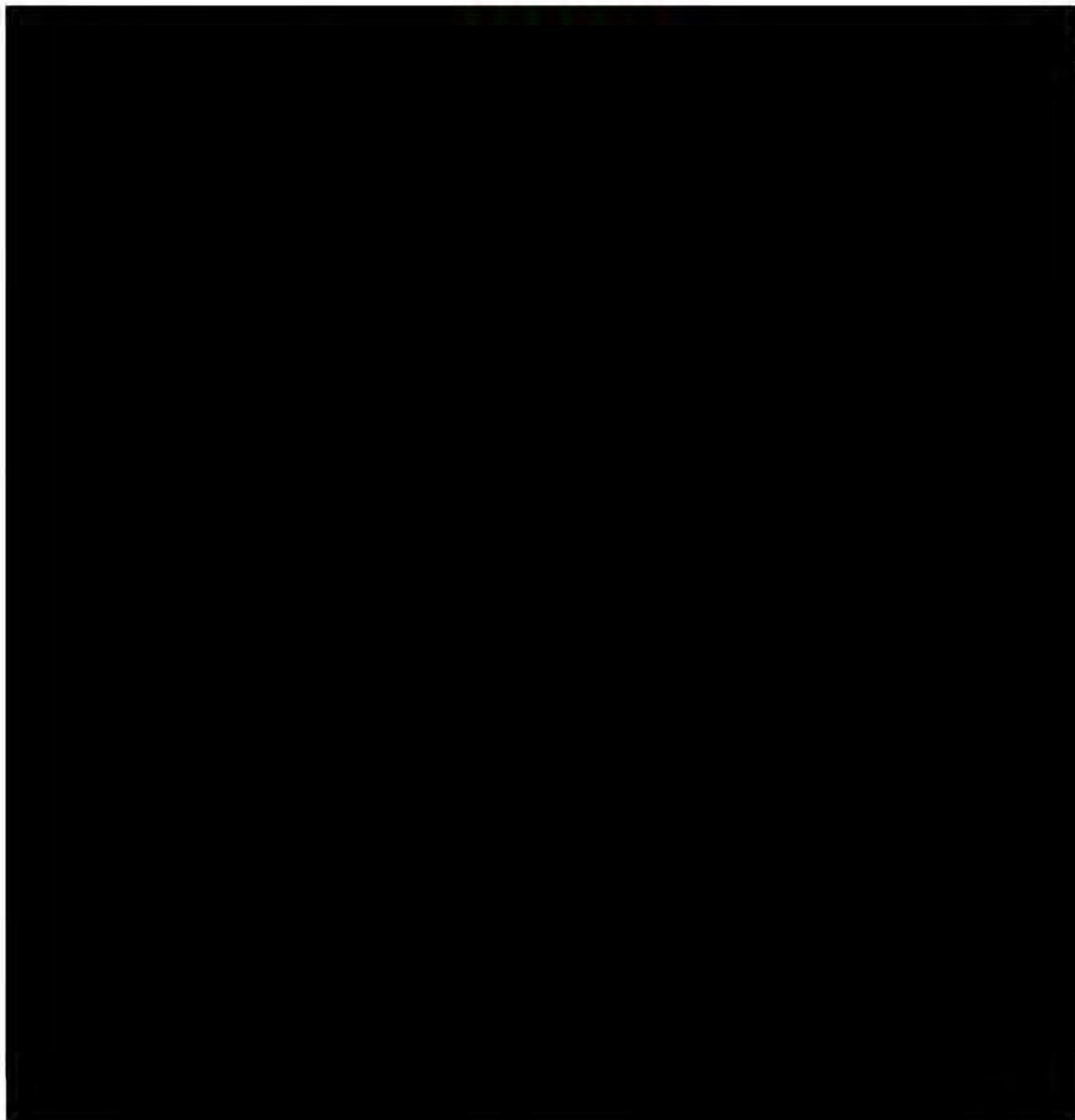


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Petreski, Sonya

From: Schroder, Matthew
Sent: Thursday, 14 October 2021 10:21 PM
To: Sims, Rod; Brakey, Anna; Fleming, Richard
Cc: Kleiner, Gennady; Proudfoot, Sarah
Subject: FW: Airports [SEC=OFFICIAL:Sensitive]
Attachments: 

OFFICIAL:Sensitive



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2. Excerpts from PAPL Trial Transcript:

21/9/21	PER	Airport: Fred Teng (GM Corporate Finance & Treasury)	QFG Barrister John Sheehan QC (QFG Barrister)		Appendix ref: A_PAPL_Opexspend_Court
<p>[SHEAHAN, MR]: If we look at (c), for example, corporate image?---Yes.</p> <p>Is there any basis on which you can justify making your airline customers pay for that, pay for Perth Airport improving its branding?---If I read item 29(c) as an example of the decorations, these are positioned in the forecourt of the terminal to increase the amenity, if you will, and festive – however you choose to view it, and they are actually on the</p>					

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aeronautical forecourt of – particularly Terminal 1 and 2. I can't recall whether there was one on Terminal 3 and 4, but if that is the example you are using, that is the particular one I recall.

Mr Teng, that is an example that you used:

Corporate image including rebranding allocated proportionally based on revenue, along with terminal Christmas and Easter festive decorations allocated.

That is only a part, isn't it, of corporate image, including rebranding?---I can't recall the amount of money related to 29(c). It would be useful to understand what the materiality is. The question of whether it supports the overall corporate matters for the business, then, yes, they were corporate matters in the business by which they were allocated proportionally as it reads based on revenue.

Item (e) is donations, on what basis can you justify airline customers paying to Perth Airport's donations?---Perth Airport – one of the aspects of an airport or any business is the social aspects and responsibilities, and that is a social licence that is important to Perth Airport and important ultimately to operate an airport, a positive area that benefits the airport in general and, therefore, part of the general undertakings, general relations that a business undertakes for the benefit of all business units, again, which is an overall corporate undertaking or activity.

If Perth Airport is making donations, Mr Teng, its shareholders should pay, shouldn't it?---Depends on the view, I suppose, Mr Sheahan.

Yes. And Perth Airport's view is that its airline customers should pay; correct?---I believe this was spread across the whole business.

Yes?---Of which airline customers are one.

And Perth Airport's view was that its airline customers should pay for Perth's contributions to AAA?---As it reads here, it appears to be 100 per cent aeronautical as – I can't recall specifically, but if it is here, then presumably it is.

That's an airport lobby group; correct?---It is an airport association --

And it puts in submissions to organisations like the Productivity Commission, challenging statements made in submissions by organisations like Qantas and the international air traffic association; doesn't it?---Whether it challenges, I believe it does submit submissions. It doesn't necessarily mean that it is challenging it directly; it is just the view of that particular entity.

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Corporate hospitality. Cost associated with stakeholder engagement, that is 100 per cent aeronautical. If Perth wants to take Virgin to the Hopman Cup, Qantas has to pay its share of that; is that right?---I don't know specifically what is in here, but if I could read the annual stakeholder event, that is an event that all our stakeholders attend. Generally it is attended by Perth Airport, government stakeholders and typically all the airlines.

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Dec-20	LHR	Heathrow Airport H7 Revised Business Plan			Appendix ref: D_IATA_LHR
<p>2.3.1 Covid-related RAB Adjustment</p> <p>The Covid-19 Pandemic has had a major impact on Heathrow Airport. Passenger numbers in 2020 are expected to be only 28% of forecast, and in 2021 only 46%. The impact of these lower passenger numbers is anticipated to reduce revenue by £3.1bn (2018p) over the two years. The scale of these losses is well in excess of what might be anticipated for a regulated company, or consistent with the WACC set for Q6.</p> <p>Heathrow has taken a wide range of actions in response to the crisis, including closing terminals, cutting capex, cutting operating cost and reducing colleague numbers. In addition, we have maximised liquidity and sought and obtained waivers from creditors. As well as these operating and financial actions, we have proposed a regulatory approach to the CAA to help manage the crisis in the best interests of consumers.</p>					

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In this approach we proposed a mechanism that would allow Heathrow to recover an appropriate proportion of the losses experienced over 30 years from 2022 by making a policy decision to increase the RAB before the start of H7.

4. Articles:

19/9/21	LHR	<i>Heathrow in dogfight with airlines over plans to double airport charges</i> The Telegraph			Appendix ref: E_Heathrow_article
<p>"Heathrow airport is locked in a dogfight with airlines over plans to almost double passenger charges as it grapples with one of the biggest debt piles in British corporate history.</p> <p>Leaked proposals, seen by The Telegraph, reveal that long-haul charges will rocket from £38.33 per traveller this year to £67.86 in 2022. ...</p> <p>"It is outrageous that Heathrow's shareholders are seeking to recoup Covid losses at the expense of their airline customers. The UK's air connectivity is the slowest-recovering in Europe and it cannot afford to be set back by even higher charges."..."</p>					
4/10/21	Many	<i>Outrageous: Infrastructure Costs Increasing \$2.3 Billion in a Crisis</i> IATA AGM 2021			Appendix ref: F_IATA_article
<p>"A \$2.3 billion charges increase during this crisis is outrageous. We all want to put COVID-19 behind us. But placing the financial burden of a crisis of apocalyptic proportions on the backs of your customers, just because you can, is a commercial strategy that only a monopoly could dream up. At an absolute minimum, cost reduction—not charges increases—must be top of the agenda for every airport and ANSP. It is for their customer airlines," said Willie Walsh, IATA's Director General.</p> <p>"A case in point is found among European air navigation service providers. Collectively, ANSPs of the 29 Eurocontrol states, the majority of which are state owned, are looking to recoup almost \$9.3 billion (€8 billion) from airlines to cover revenues not realized in 2020/2021. They want to do this to recover the revenue and profits they missed when airlines were unable to fly during the pandemic. Moreover, they want to do this in addition to a 40% increase planned for 2022 alone.</p> <p>Other examples include:</p> <ul style="list-style-type: none"> • Heathrow Airport pushing to increase charges by over 90% in 2022 • Amsterdam Schiphol Airport requesting to increase charges by over 40% over the next three years 					

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- Airports Company South Africa (ACSA) asking to increase charges by 38% in 2022
- NavCanada increasing charges by 30% over five years
- Ethiopian ANSP raising charges by 35% in 2021.”

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Appendix A PAPL Opexspend Court

PH SC/DIV/PR/CIV 3147/2018

operate an airport, a positive area that benefits the airport in general and, therefore, part of the general undertakings, general relations that a business undertakes for the benefit of all business units, again, which is an overall corporate undertaking or activity.

If Perth Airport is making donations, Mr Teng, its shareholders should pay, shouldn't it?--Depends on the view, I suppose, Mr Sheahan.

Yes. And Perth Airport's view is that its airline customers should pay; correct?--I believe this was spread across the whole business.

Yes?--Of which airline customers are one.

And Perth Airport's view was that its airline customers should pay for Perth's contributions to AAR?--As it reads here, it appears to be 100 per cent aeronautical as - I can't recall specifically, but if it is here, then presumably it is.

That's an airport lobby groups; correct?--It is an airport association - - -

And it puts in submissions - - -?--Australian airports association, I believe.

And it puts in submissions to organisations like the Productivity Commission, challenging statements made in submissions by organisations like Qantas and the international air traffic association; doesn't it?--Whether it challenges, I believe it does submit submissions. It doesn't necessarily mean that it is challenging it directly; it is just the view of that particular entity.

Corporate hospitality. Cost associated with stakeholder engagement, that is 100 per cent aeronautical. If Perth wants to take Virgin to the Hogan Cup, Qantas has to pay its share of that; is that right?--I don't know specifically what is in here, but if I could read the annual stakeholder event, that is an event that all our stakeholders attend. Generally it is attended by Perth Airport, government stakeholders and typically all the airlines.

The one that looked a bit like it might be useful to the airline is (F):

TD SC/DIV/PR/CIV 3147/2018

"Airline incentive (payments to assist with new route development..."

?--Yes, I can see that. Sorry, what was the question?

I haven't asked the question, yet, Mr Teng. I was pausing. You thought it was reasonable to impose 100 per cent of those costs on existing customers; correct?--No, I don't believe that is correct. If you refer back to the update of information on the spreadsheet - or, sorry, the additional information, I believe this was allocated in a sharing arrangement, 50/50, for the benefit of both the airport and the - sorry, the airline and the airport - - -

All right. So that - - -?--So I don't think - I don't believe that is correct. But if you could refer to that, then I could clarify for you.

You clarify the position in paragraph 30 in relation to corporate hospitality. I don't think you do in relation to incentives?--I think it is part of the additional information we shared with Qantas at the time.

I see?--If we go back to the sheet earlier that you had put up, I believe there is an airline incentive clarification which I believe read that it is a sharing arrangement for 50/50 and it included the sharing of the two FTE - or four FTE that was then split into two FTE in my recollection.

Now, these incentives operate during the term of the PSA to encourage another airline or existing airline to, for example, start a new route; is that an example?--I don't know exactly what is included in that in the specific dollar amounts, but typically that is an undertaking of the airport.

Can we have a look at this document, please. If the operator can bring it up by reference to the Bates number, well and good; if not, we'll move on. PAR.001.003.0086. Thank you, that is F1254. And if we go to the Bates number page 0009, you will see a description of airline incentive payments which approval is being sought from the board?--I can see that.

This is a document you have seen before?--It would be a general outline of incentives that might come up from time to time.

20/9/21 568
9.00.46

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Appendix B PAPL leasing Court

TD SC/CIV/PE/CIV 3147/2018

CONTINUED FROM PUBLIC HEARING

SHEAHAN, MR: On Monday, 9 August, Qantas wrote to Ms Hanrahan and Ms Little saying:

We understand that our ground lease on our domestic freight terminal is due to expire at the end of this year ... Could we please ask for a renewal proposal based on a 5 year term

Can you see that?---Yes, I can.

And Ms Little's response is at the top of the page. You will see it says:

PAPL's current policies that all new subleases and licences with airlines?

?---Sorry, Mr Sheahan, can I read the whole email, please?

Yes?---Yes, Mr Sheahan.

You see that what, according to this email, PAPL's new policy is, is that if you are an airline and you don't have a current aeronautical services agreement with Perth Airport, then there's going to be a clause in any agreement that it will be subject to there being an aeronautical services agreement in place. If there isn't at any time, Perth can terminate the lease or the licence without penalty or claim: do you see that?---Yes, I can.

This is to apply to your biggest customer, Qantas; correct?---Yes.

Who has no choice but to fly in and out of Perth Airport every day year in, year out: correct?---Well, they have a choice.

Not a practical choice, Mr Pereira, seriously, do they? No practical choice?---Well, they don't have to fly into Perth, Mr Sheahan, but I'm just making sure that I'm accurate in answering your question. In terms of context, this Qantas - the majority of the leases Qantas has at the airport are in holdover, some of them have been in holdover for 16 years and Qantas had given an undertaking and commitment in the middle of last year to receive them all by a certain date of last year. So I think there's been adequate time to get these resolved, which we just haven't been able to do. But I - - -

TD SC/CIV/PE/CIV 3147/2018

Yes, but the problem, Mr Pereira, is that this isn't a letter back from Perth Airport saying, "No, we really need to sign up all these leases", that's the first sentence; this is an email saying, "But we are, in effect, not going to sign any subleases with you unless you have an agreement with us for an aeronautical services agreement, because otherwise any agreement we sign with you will be subject to this new clause", isn't that the burden of it?---I think there will be a series of communications of which this is just one, Mr Sheahan, that's taken out of context.

Taken out of context?---Yes. And there's a comment in here about the overall tidy-up and that's the tidy-up that I referred to that Qantas had provided a commitment earlier last year to tidy up all the leases which they have not yet done.

I want to suggest to you, Mr Pereira, that the only purpose of the clause that is quoted in the email is to provide a source of commercial pressure on every airline that has a lease or licence from Perth Airport in fact to agree with Perth Airport on the terms of an aeronautical services agreement: correct?---Yes.

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Appendix D IATA LHR

8.2.3.1 Covid-related RAB Adjustment

The Covid-19 Pandemic has had a major impact on Heathrow Airport. Passenger numbers in 2020 are expected to be only 28% of forecast, and in 2021 only 46%. The impact of these lower passenger numbers is anticipated to reduce revenue by £3.1bn (2018p) over the two years. The scale of these losses is well in excess of what might be anticipated for a regulated company, or consistent with the WACC set for Q6.

Heathrow has taken a wide range of actions in response to the crisis, including closing terminals, cutting capex, cutting operating cost and reducing colleague numbers. In addition, we have maximised liquidity and sought and obtained waivers from creditors. As well as these operating and financial actions, we have proposed a regulatory approach to the CAA to help manage the crisis in the best interests of consumers.

In this approach we proposed a mechanism that would allow Heathrow to recover an appropriate proportion of the losses experienced over 30 years from 2022 by making a policy decision to increase the RAB before the start of H7. We submitted this proposal to the CAA in

July 2020.¹ The CAA responded to our request with a consultation published in October (CAP 1966) asking for more information. Heathrow responded to the CAA at the start of November.²

The systematic risk of Heathrow, and therefore its WACC, depends upon how risky Heathrow is perceived to be by investors. This in turn will be affected by the level of mitigation to the impact of Covid-19 that the regulatory regime provides. In our CAP1966 response we estimated that implementing the adjustment as proposed would reduce the post-tax WACC by 1.3% compared to no adjustment being made.

In this RBP Heathrow has included the impact of the RAB adjustment as proposed in our response to CAP1966. Therefore, our approach to estimating Heathrow's WACC needs to take account of the impact of the RAB adjustment we have proposed. Our central plan therefore takes account of the RAB adjustment in our assessment of the cost of equity – reducing it by 1.3% post-tax (1.5% pre-tax) compared to a no-adjustment case. We also reflect the impact of the adjustment on the overall charge. The net result is a H7 charge that is £8.5 per passenger lower than without an adjustment. We provide estimates of the cost of equity with and without the adjustment below. Our estimates are consistent with evidence from current market data.

For the RBP, we have not made an adjustment to the cost of debt to account for the adjustment. However, if Heathrow is downgraded in 2021, then this would lead to a higher cost of debt for new debt incurred from 2021 onwards until the credit rating is restored. In CAP1966 we estimated the impact of a one-year delay to implementing the adjustment to be £30m p.a. across H7. This would result in an increased charge per passenger of c.£0.4 in H7. More information on the impact of the CAA not making the proposed adjustment to Heathrow's RAB can be found in Chapter 10.2 – Outcomes – Next Steps.

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Appendix E_ Heathrow_article

9/19/21, 10:58 AM

Heathrow in dogfight with airlines over plans to double airport charges

The Telegraph

News Business Sport Opinion Politics World Money Life Style Travel Culture

View all Business

Heathrow in dogfight with airlines over plans to double airport charges

Leaked proposals reveal that long-haul charges will rocket from £38.33 per traveller this year to £67.86 in 2022

By Oliver Gill, CHIEF BUSINESS CORRESPONDENT

18 September 2021 • 7:00pm

Twitter Facebook Messenger Email Print 41

Heathrow airport is locked in a dogfight with airlines over plans to almost double passenger charges as it grapples with one of the [biggest debt piles in British corporate history](#)

Leaked proposals, seen by The Telegraph, reveal that long-haul charges will rocket from £38.33 per traveller this year to £67.86 in 2022.

Virgin Atlantic said the increase - along with a rise in other bills - would cost a family of four flying to Florida an additional £200.

Former British Airways boss [Willie Walsh](#), now head of industry body Iata, said: "We've heard that inflation is coming back, but that is ridiculous."

<https://www.telegraph.co.uk/business/2021/09/16/heathrow-dogfight-airlines-plans-double-airport-charges/>

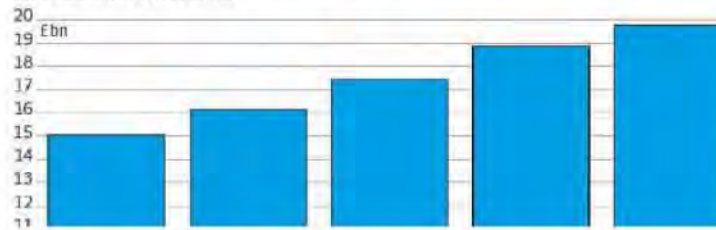
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9/19/21, 10:58 AM

Heathrow in dogfight with airlines over plans to double airport charges

Debt is rising at a rate of £1bn per year

Total debt owed by the airport



"It is outrageous that Heathrow's shareholders are seeking to recoup Covid losses at the expense of their airline customers. The UK's air connectivity is the slowest-recovering in Europe and it cannot afford to be set back by even higher charges."

Heathrow has been hit hard by a combination of the UK's maligned ["traffic light" Covid border system](#), and gross debts of almost £20bn.

Ad removed. [Details](#)

With the airport expecting to welcome fewer passengers in 2022 than 2021 - roughly a quarter of the 81 million in 2019 - bosses have had to ask lenders for waivers on the airport's banking conditions to avoid defaulting on its loans.

<https://www.telegraph.co.uk/business/2021/09/16/heathrow-dogfight-airlines-plans-double-airport-charges/>

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9/19/21, 10:56 AM Heathrow in dogfight with airlines over plans to double airport charges
A spokesman for the airport said: "Unfortunately, with fewer people travelling as a result of Covid, we now have no choice but to increase prices to keep the airport operating safely and efficiently."



British Airways, Heathrow's biggest customer, is also understood to have been left fuming by the airport's plans to introduce a new "super low" noise level that cannot even be achieved by its fleet of state-of-the-art Airbus A321Neo jets.

It means that the UK's flag carrier will be unable to access bigger discounts and forcing overall costs for short-haul flights up by more than 40pc.

While BA declined to comment on the proposals, a spokesman for trade body Airlines UK said: "Heathrow's proposed charges will have a detrimental impact on consumers - the majority of whom have been prevented from travelling for the last 18 months - and the post-Covid recovery of the entire aviation industry."

Heathrow's plans also include a new levy on cargo, which has provided a lifeline revenue stream for many airlines after their passenger services were grounded by Covid restrictions.

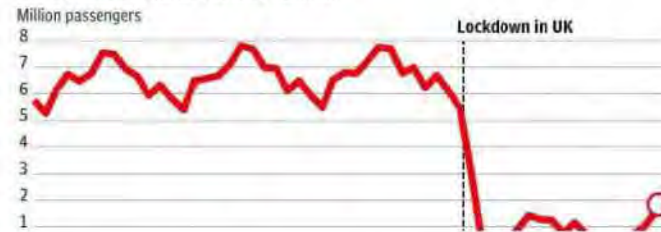
Corneel Koster, Virgin Atlantic chief operating officer said: "A new cargo levy - that would effectively be a tax on trade."

<https://www.telegraph.co.uk/business/2021/09/15/heathrow-dogfight-airlines-plans-double-airport-charges/>

9/19/21, 10:56 AM Heathrow in dogfight with airlines over plans to double airport charges

Pandemic plunge

Monthly number of passengers using Heathrow



Heathrow boss John Holland-Kaye has previously claimed that the airport would "supercharge the Government's 'Global Britain' ambitions" by being a cornerstone of the country's trade post-Brexit.

Mr Walsh said: "This cynical move by Heathrow highlights the hypocrisy of their claims."

The prospect of increased charges will increase the cost of a holiday for many Britons seeking to escape after months stuck at home because of more stringent travel requirements than those on the European Continent.

Earlier this month Ryanair boss Michael O'Leary warned that holiday prices are likely to rise sharply next year as fewer flights, inflation and higher taxes drive fares up.

The new price regime also risks deterring holidaymakers less than 48 hours after the Government's controversial traffic light scheme was abolished.

The industry is now seeking support from the Civil Aviation Authority (CAA), which determines the overall level of profit that Heathrow can make under a complex regulatory framework. Sources said that the CAA will announce its own proposals within the next few weeks. Industry insiders suggested that this could scupper Heathrow's pricing plan.

A spokesman for Heathrow said: "We're currently consulting with airlines and we welcome their feedback. We have reduced our prices by over 16pc during the past seven years, providing excellent value for money."

<https://www.telegraph.co.uk/business/2021/09/15/heathrow-dogfight-airlines-plans-double-airport-charges/>

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9/19/21, 10:56 AM

Heathrow in dogfight with airlines over plans to double airport charges

“Our proposal is balanced and represents an increase of around 4pc to average ticket prices. The proposed changes will stem current losses and ensure we can deliver the level of service and reliability that our passengers and airlines expect.”

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Appendix F IATA article

Press Release No: 69

Date: 4 October 2021



Outrageous: Infrastructure Costs Increasing \$2.3 Billion in a Crisis



Boston - The International Air Transport Association (IATA) warned that planned increases in charges by airports and air navigation service providers (ANSPs) will stall recovery in air travel and damage international connectivity.

Confirmed airport and ANSP charges increases have already reached \$2.3 billion. Further increases could be ten fold this number if proposals already tabled by airports and ANSPs are granted.

"A \$2.3 billion charges increase during this crisis is

outrageous. We all want to put COVID-19 behind us. But placing the financial burden of a crisis of apocalyptic proportions on the backs of your customers, just because you can, is a commercial strategy that only a monopoly could dream up. At an absolute minimum, cost reduction—not charges increases—must be top of the agenda for every airport and ANSP. It is for their customer airlines," said Willie Walsh, IATA's Director General.

A case in point is found among European air navigation service providers. Collectively, ANSPs of the 29 Eurocontrol states, the majority of which are state owned, are looking to recoup almost \$9.3 billion (€8 billion) from airlines to cover revenues not realized in 2020/2021. They want to do this to recover the revenue and profits they missed when airlines were unable to fly during the pandemic. Moreover, they want to do this in addition to a 40% increase planned for 2022 alone.

<https://www.iata.org/en/pressroom/2021-releases/2021-10-04-06/>

Other examples include:

- Heathrow Airport pushing to increase charges by over 90% in 2022
- Amsterdam Schiphol Airport requesting to increase charges by over 40% over the next three years
- Airports Company South Africa (ACSA) asking to increase charges by 38% in 2022
- NavCanada increasing charges by 30% over five years
- Ethiopian ANSP raising charges by 35% in 2021

"Today I am ringing the alarm. This must stop if the industry is to have a fair opportunity at recovery. Infrastructure shareholders, governmental or private, have benefited from stable returns pre-crisis. They must now play their part in the recovery. It is unacceptable behavior to benefit from your customers during good times and stick it to them in bad times. Doing so has broad implications. Air transport is critical to support economic recovery post pandemic. We should not compromise the recovery with the irresponsibility and greed of some of our partners who have not addressed costs or tapped their shareholders for support," said Walsh.

Some regulators have already understood the danger being posed by the behavior of infrastructure providers. Regulators in India and Spain successfully intervened on the increases proposed by airports. They provide an example for other regulators to follow. And the Australian Competition & Consumer Commission[1] warned in their recently published report that increasing charges to recover lost profits from the pandemic will demonstrate airports systematically taking advantage of their market power, damaging the vulnerable airline sector's ability to recover at the expense of both consumers and the economy.

Airlines undertook drastic cost cutting from the outset of the pandemic, reducing operating costs by 35% compared to pre-crisis levels. This was supported by increased commercial borrowing and shareholder contributions. Airlines also sought government aid, the majority of which was in the form of loans that need to be paid back. Of the \$243 billion that was made available to airlines, \$81 billion supported payrolls and approximately \$110 billion was in support that needs to be paid back. As a result, airlines have amassed a huge debt burden of over \$650 billion. Any defaults could result in airline failures and the loss of tens of thousands of jobs.

IATA urged airports and ANSPs to apply solutions to address the financial impact of the pandemic including:

- Implementing sustainable cost control measures
- Tapping shareholders
- Accessing capital markets
- Seeking government aid