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Committee Secretary
Senate Select Committee on COVID-19
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Inquiry into the Australian Government's response to the COVID-19 pandemic.

Dear Ms Thomson,

Thank you for the opportunity to make a submission to the Select Committee's inquiry into the Australian Government's response to the COVID-19 pandemic.

The Australian Airports Association (AAA) is the national voice for Australian airports and represents the interests of over 350 airports and aerodromes across Australia, in addition to over 160 corporate members that supply products and services to airports. The nation's airport sector is responsible for maintaining the jobs of over 206,000 Australians, including 8700 people directly employed by airports. Prior to pandemic, Australian airports added \$34.6 billion (around 2%) to GDP. This consisted of \$4.9 billion of direct economic activity from core airport activities plus an additional \$29.7 billion of indirect and value-added airport-related activities.

All Australians have a stake in the airport sector

Australia's airport sector ranges from the international gateway airports to regional airports and remote airstrips. Our major airports are operated by a diverse range of private sector interests, with most Australians having a stake in these airports either indirectly through their superannuation funds or directly through owning shares in ASX-listed companies. At the other end of the scale, most airports are publicly owned by local governments and their ratepayers. Regional airports form an important part of local government operations and finances.

Airports provided a public service during the pandemic

By keeping domestic and international air routes open for passenger and freight during the crisis, Australia's airport sector provided a valuable public service, repatriating Australians from overseas, keeping a minimum domestic air network functioning and ensuring air freight stayed moving.

Providing these services at a time of crisis came at a significant cost to airports. The costs of keeping the lights on in terminals and on runways remain fixed regardless of the activity levels, particularly in providing security and other services for the international arrivals and departures that maintained

Australia's air bridge to the world. Costs were driven up by decisions made by the National Cabinet, setting caps on numbers for international arrivals and compounded by decisions from the jurisdictions to cap daily and weekly arrival numbers at extremely low levels.

The Airport sector is in trouble

The COVID-19 pandemic has exposed existing fault lines across our economy and our society. The airport sector and the aviation industry were, more broadly, one of the first parts of the Australian economy to feel its effects. They will also be one of the last to recover. The decision in March 2020 to close Australia's international borders, while undoubtedly the right decision from a public health point of view, also caused a rapid decline in activity in Australia's airport sector.

The pandemic has badly affected the airport sector

To gauge the effects of the pandemic on the airport industry, the Australian Airports Association (AAA) undertook a national survey of its airport members in late April 2020. The key findings include:

1. Passenger numbers fell significantly with most airports reporting a 90% or greater reduction in passenger traffic
2. Aeronautical revenues reduced by over \$455 million (over \$150 million a month) between February and April 2020 – a drop of at least 75% compared to the same period of 2019
3. Non-aeronautical revenues fell by around \$438 million (around \$145 million a month) over the same period – a fall of over 65% below pre-COVID-19 levels
4. Airport infrastructure investment has slowed dramatically since the crisis began, with many projects delayed or cancelled, although a base level of maintenance and repair continues.
5. To maintain future capability, airports have reduced activity levels in their workforces, mostly by redeploying staff, reducing hours and leave taking, with redundancies a last resort.

It is estimated that Australia's airports are collectively losing around \$300 million a month in foregone revenues. This has caused ripples through the wider economy as reduction in core airport activities and related services (such as food and beverage, retail and hospitality) reduced wages and salaries paid to staff and contractors. Similarly, the cancellation or deferral of on-airport infrastructure investment projects reduces the multiplier effects of airport investment in goods and services across the wider economy.

Government policies directly affect airport finances

A combination of Government responses during the pandemic and pre-existing policy directions are likely to have direct and permanent effects on airport finances which will affect the long-term viability of the airport sector.

COVID-19 countermeasures increase airport operating costs

New best practices for hygiene and infection control in the wake of COVID-19 have the potential to dramatically alter the operating cost structure for airports, particularly regional airports.

Even at low levels of passenger throughput, increased cleaning regimes, physical distancing, Perspex 'sneeze guards', temperature checking equipment and additional lanes to promote physical distancing in terminals have already increased airport operating costs. In the longer term, some of these pandemic practices may become mandatory. This means airports will need to shoulder these 'new normal' operating costs, affecting future airport budgets either through airports absorbing the costs or passing them on to airport users.

The financial effects of changed screening and security models

Government policies in play before the pandemic will also affect airport finances, particularly the Australian Government's efforts to shift security screening and border protection costs to airports.

For example, changes to aviation security requirements announced in May 2018 mandated the installation of advanced body scanners and other security screening equipment at major and regional airports. While \$50.1 million in Australian Government assistance is available for regional airports to assist with capital works, there is no ongoing support to offset increased operating costs of the new screening regime. Increased screening costs will be passed through to passengers through airfares and further reduce the accessibility of air travel to regional communities.

At international airports, the Australian Government proposes to transfer the capital funding costs of expanded or upgraded border protection facilities from Government to airports. Airports already provide significant in-kind support through provision of high value terminal space and other facilities to border protection agencies free of charge. As border protection is the responsibility of the Australian Government, the capital costs of border protection facilities are the legitimate responsibility of Government and should not be shifted on to airports.

Both policies have been imposed on airports by Government with few opportunities to negotiate a better outcome or mitigate the worst effects on airport finances. The AAA is concerned that the post-COVID-19 'new normal' will see the operating costs of enhanced health protection and security screening and the capital costs of border protection facilities fall on to airports. In an environment where airport finances are already under pressure, it is likely these costs will have to be passed on to airport users at a time, increasing the cost of airfares and other services at a time when the aviation industry can least afford it.

The AAA recommends that implementation of the Australian Government's new security screening and border protection models be paused until an equitable arrangement between Government and airports is worked out and the aviation industry recovers to relative normality.

JobKeeper provides essential assistance to airports

The Australian Government's JobKeeper income support program has been a welcome policy response to support the national economy during this critical time. It has assisted many airports to keep essential staff employed during the pandemic, particularly at the 10 largest airports which account for the majority of the 8700 direct jobs in the airport sector. JobKeeper has also ensured that key contractor staff responsible for vital airport functions such as security screening remain engaged in employment with the airport sector at a time of low aviation activity.

The scheduled expiry of JobKeeper at the end of September 2020 will mean key airport staff (both directly employed and contractors) and their essential skills in airport management and operations would be laid off. Re-establishing the skills base and the high costs of training and accrediting new contractors (or requalifying contractors with expired qualifications) would be a significant cost imposition on the airport sector. This would act as a brake on the sector's eventual recovery ahead of the return of domestic aviation and before a restart of international aviation in 2021.

The AAA strongly advocates the Australian Government retain JobKeeper for the airport sector after its current expiry date of 27 September 2020. This could either be part of a standalone package of assistance to the airport sector or aviation industry. Alternatively, it could be part of a broader extension of JobKeeper across the travel and tourism industry.

JobKeeper exclusions disproportionately affect regional and remote airports

As local government is excluded from JobKeeper, this means most council-owned airports have had difficulty in retaining the key capabilities of their airport operations staff. While some state governments (notably NSW) have developed income support programs similar to JobKeeper, local governments have had to take other measures to try to retain airport staff, including staff redeployments within council, reducing hours worked or placing staff on leave.

The lack of access to income support for staff at most council-owned regional airports is a significant issue for airports in regional Australia where airports often generate significant employment and economic activity. The AAA's pre-pandemic figures show that regional airports directly employed over 1700 full-time workers and indirectly supported another 2750 jobs. As part of a broader package of assistance to the airport sector, the AAA recommends setting up a program of financial assistance to council-owned airports, either as direct funding from the Australian Government or as indirect funding for delivery by state and territory governments.

Australian Government support could better help airports

The Australian Government has announced almost \$1.5 billion in direct support for the aviation industry since the outbreak of the pandemic. The AAA appreciates what has been done for the aviation industry to keep aircraft flying and airports open. However, the AAA is concerned that Australian Government support provides only indirect assistance to airports.

The centerpiece of the government's aviation industry support is its \$715 million package administered by the Department of Infrastructure, Transport, Regional Development and Communications (DITRDC). The main package is supported by another \$363 million in funding to maintain a basic network of domestic air services and a further \$350 million to keep international air freight routes open.

The package provides rebates and waivers of Australian Government charges including aviation fuel excise, Airservices Australia and CASA charges for domestic air operations and domestic aviation security screening charges. Elements of the aviation industry have criticised the package as providing a significant amount (estimated at \$550 million) as an effective funding top-up to Airservices Australia and CASA to offset lost revenues.

Domestic aviation security screening charges rebate

The main benefit to airports in this package is the rebates of security charges, that covers screening of domestic passengers and baggage by airports, as mandated by the Australian Government. Security screening is a considerable fixed cost for the safe operation of the aviation sector. Airports do not profit from security screening charges, with screening costs incurred by airports being billed to airlines and recovered by airlines through airfares then passed back to airports.

The design of the screening charges rebate means that DITRDC will pay the rebate to airlines, who will then pass it through to airports. There has been some evidence provided to the AAA that in the early months of the program, airlines were delaying payment to airports. While the AAA supports the rebate, its preference is for the DITRDC to directly reimburse airports for security costs, or alternatively, have a mechanism to ensure rebates are promptly remitted to airports by airlines.

International security screening is not covered by Australian Government assistance measures

International airports provide an essential service to Australia during the pandemic. They are experiencing significant difficulties in maintaining the high fixed costs of running international

security screening systems despite low volumes of flights and passengers. As with domestic screening, international security screening is a mandated requirement. Like domestic aviation, international security screening charges are recovered through airfares and passed back to airports. The AAA's analysis of data from Australia's 10 largest international airports indicates they will carry over \$42 million in unrecovered international screening costs to the end of 2020.

The AAA has advocated to the Australian Government that the unrecovered international security costs be rebated in the same manner as domestic security charges under the \$715 million aviation industry relief package. This would remove another cost pressure facing airports and support the potential restart of international air travel in 2021 by reducing the cost of airfares.

A phased re-opening of trans-Tasman routes would show support for airports

Recent discussions between the Australian and New Zealand governments on re-establishing trans-Tasman travel are encouraging. This is a significant market for the Australian aviation industry and for airports, particularly the major airports which have been significantly impacted by the cessation of almost all international travel. The AAA and its airline counterpart Airlines for Australia and New Zealand (A4ANZ) have already developed safe travel protocols for the domestic aviation industry under the banner of the Australian Aviation Recovery Coalition (AARC). These protocols are designed to be adapted for trans-Tasman travel as the situation develops.

An initial restart on the key trans-Tasman routes from airports in states with low rates of COVID-19 infections would have significant benefits not only for the aviation industry, but for the tourism industry and wider economy. Pending the ongoing development of the COVID-19 situation in both countries, the AAA is ready for the re-opening of trans-Tasman routes and supports an agreement being reached at the earliest possible time.

Airport revenues are being squeezed

In normal times, many major airports are profitable businesses, based on a combination of aeronautical and non-aeronautical revenues. However, most secondary capital city and regional airports manage to only cover operating costs from revenues with slim or no reserves for upgrading infrastructure and facilities.

During the pandemic, many airports have found their already reduced revenue streams being further squeezed by the practices of the airline sector and government regulatory requirements. There is strong evidence that airlines have been slow in paying their outstanding bills, despite significant levels of Australian Government industry assistance to airlines. AAA data indicates that over 30 Australian airports are carrying approximately \$18 million in outstanding fees and charges for security screening services and aeronautical charges from airlines.

Since April 2020, airports have provided relief on rent (up to 100% of ordinary rents) and land tax to their commercial small and medium enterprise (SME) tenants in line with the National Cabinet's mandatory code of conduct on *COVID-19 SME Commercial Leasing Principles*. While this has been an important action to ensure on-airport businesses remain viable and operational until the aviation industry can begin recovery, this has also meant that non-aeronautical revenues of airports have dropped significantly, while liabilities (particularly land tax) remain. While the land tax relief from state governments is welcomed by airports, it is contingent on it being passed through to tenants, still representing a further loss of airport revenues.

Funding for infrastructure upgrades

The AAA welcomes the recent announcement by the Australian Government of the first round of projects funded from the 4-year, \$100 million Regional Airports Program (RAP). The RAP announced in the 2019-20 Federal Budget was the culmination of a 3-year effort from the AAA to secure dedicated funding for regional airports not classified as remote. The RAP relieves the burden on regional councils to fund essential airport maintenance and upgrades and helps close the \$170 million infrastructure deficit at regional airports identified by the AAA in 2016.

Securing the \$41.2 million of Australian Government funding for successful RAP projects was conditional on local governments providing matching 50:50 funding. In the current environment where councils are under significant financial stress, the AAA recommends that future rounds of the RAP should either be fully funded by the Australian Government or lower the co-funding requirement to a 25:75 contribution ratio between local governments and Australian Government.

The AAA views the RAP and other infrastructure upgrading programs as critical to the Australian Government's infrastructure-led recovery. The RAP meets the criteria for constructive stimulus projects, targeting small infrastructure improvements (not megaprojects), which can be delivered relatively quickly (using local resources) and at scale across many airports around Australia.

The AAA is also of the view that such a program could usefully be extended to 'middle-sized' regional airports with throughput higher than 250,000 passengers a year but less than 2 million passengers a year. These 'missing middle' airports are currently ineligible for RAP funding, but also have critical needs for upgrading and updating infrastructure. Many of these airports, such as Broome, Hamilton Island, Newcastle, Proserpine and the Sunshine Coast serve high-value tourism locations that will require updated infrastructure to be ready for the eventual recovery of domestic and international tourism.

Another area where the Australian Government could assist airports would be to lift the threshold amount for projects that triggers a Major Development Plan under the *Airports Act 1996* from the current \$25 million to \$50 million. This would bring forward more infrastructure upgrading projects and developments at Federally leased airports.

Concluding remarks

All of Australia's major airports will most likely post losses in the 2020-2021 Financial Year. While Australia's airlines can rely on domestic flying for most of their revenues and profits, Australia's major airports derive their revenues and profits largely from international passengers. A recovery in domestic travel will certainly be welcomed by the major airports and will deliver strong recovery for the tourism industry and our airline. Until international travel recovers, airports will continue to struggle. Building from the current low base, re-opening of trans-Tasman air routes would be a logical first step to restart the airport sector and aviation industry.

In conclusion, the AAA recommends to the Committee that the Australian Government supports the airport sector through the following measures:

1. Develops a targeted financial assistance package for airports and the wider aviation, travel and tourism sector;
2. That the Australian Government's new security screening and border protection policies be paused until an equitable settlement is reached and the aviation industry recovers;
3. Extend eligibility of the JobKeeper assistance scheme to local government-owned airports;

4. Greater oversight of the aviation assistance packages to ensure that airlines promptly pass through rebates for security and other government charges to airports;
5. That international security screening charges be rebated in the same manner as domestic security charges under the \$715 million aviation industry relief package;
6. The Australian Government fully funds future rounds of the Regional Airports Program;
7. A new infrastructure funding program be developed for middle-sized regional airports with pre-2020 annual passenger numbers higher than 250,000 and less than 2 million, and;
8. An administrative change to the *Airports Act 1996* raising the threshold for projects to trigger preparation of a Major Development Plan from \$25 million to \$50 million.
9. A limited restart of international aviation through re-opening trans-Tasman routes.

If you would like further information from the AAA regarding this submission, please contact me via Scott Martin (Manager, Policy and Corporate Affairs) either by telephone on _____ or via email at _____

Yours sincerely,

James Goodwin
Chief Executive Officer