



AUSTRALIAN
AIRPORTS
ASSOCIATION

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Mr. Gerry McNally
Committee Secretary
Senate Standing Committees on
Rural and Regional Affairs and Transport
PO Box 6100 Parliament House
CANBERRA ACT 2600

Via email: rrat.sen@aph.gov.au

Dear Mr. McNally,

Australian Airport Association submission to the inquiry into the future of Australia's aviation sector in the context of COVID-19 and conditions post-pandemic

Thank you for the opportunity to make a submission to the Committee's inquiry into the future of Australia's aviation sector in the context of COVID-19 and conditions post-pandemic (the Inquiry). The Australian Airports Association (AAA) is the national voice for Australia's airports and represents the interests of over 330 airports and aerodromes across Australia, in addition to over 120 corporate members supplying products and services to airports.

Introduction

The economic and social wellbeing of almost every Australian depends on a viable airport sector. Many Australians have an abiding interest in the economic wellbeing of airports, either through their superannuation funds, their share portfolios or as local government ratepayers.

Prior to the COVID-19 pandemic, the Australian airport sector maintained employment for over 206,000 Australians, including 8700 people directly employed by airports. Airports added \$34.6 billion (around 2%) to GDP, consisting of \$4.9 billion in direct economic activity from core aviation activities plus a further \$29.7 billion of indirect and value-added airport-related activities.

The airport sector and the aviation industry more broadly were one of the first parts of the Australian economy to feel the pandemic's effects and will also be among the last to recover. While the decision in March 2020 to close Australia's international borders was undoubtedly the right choice from a public health point of view, it also hastened the rapid decline of the aviation sector.

In the last financial year before the pandemic (FY18/19), year-on-year passenger growth of 1.1% was already below the five-year (2.2%) and 10-year (2.9%) average annual growth rates due to low wages growth, a softening Australian economy and mature travel and tourism market. This trend of slow growth in passenger numbers was compounded by the east coast bushfire season in 2019-20, with reduced domestic travel in the usually busy month of January, while international passengers stayed away, being influenced by global media coverage that "Australia was on fire".

Addressing the terms of reference

This submission will briefly address the Inquiry's terms of reference. Matters raised will be covered in greater depth with reference to the relevant sections the AAA's submission to the Department of Infrastructure, Transport, Regional Development and Cities' *The Future of Australia's Aviation Sector Issues Paper* (the Issues Paper). The submission is at [Attachment A](#).

The future of Australia's aviation sector, in the context of COVID-19 and conditions post-pandemic, having particular regard to:

- a. *the importance of Australia's aviation sector in supporting the economic and social wellbeing of all Australians;*

Airports are critical pieces of national infrastructure vital to the economic and social wellbeing of all Australians. Airports have provided an essential service during the pandemic by keeping domestic and international air routes open for passenger and freight during the COVID-19 pandemic, repatriating Australians from overseas, ensuring a minimum domestic air network can function and keep domestic and international air freight moving.

Our capital city gateway airports keep communities connected to essential services and provide access to world markets. Australia's regional airports are gateways to world-renowned tourist attractions, supporting agribusiness and assist in medical evacuation and bushfire fighting operations. Airports often provide the only public transport link between regional and remote Australia and the educational, medical and professional services in larger towns and cities. (p. 5)

- b. *the immediate and long-term impacts of the COVID-19 pandemic response on all aspects of the Australian aviation sector;*

The short-term impact from the COVID-19 pandemic on Australia's airports has been catastrophic. Passenger numbers have plunged dramatically, as shown in Figure 1 below. Numbers of international passengers have fallen by 98% over the previous 12 months. Similarly, domestic passenger numbers dropped by similar levels at the height of the national lockdown. They have now recovered in the second half of 2020 to sit around 89% below the second half of 2019.

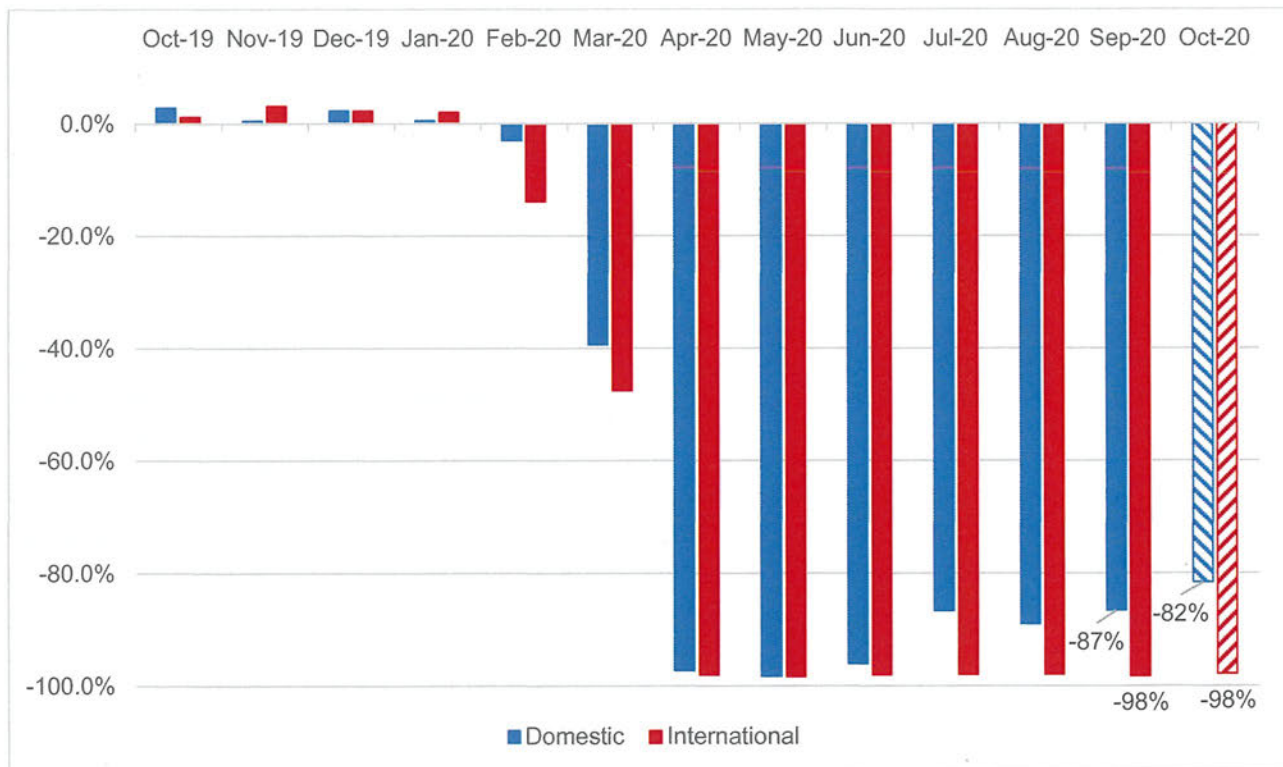


Figure 1: Percentage change in passenger numbers at Australian airport October 2019 to October 2020 (Source: AAA analysis of airport & BITRE data)

The costs of providing an essential transport service during the pandemic has been significant. There are high fixed costs involved in keeping the lights on and runways open, regardless of aviation activity levels, particularly in providing security and other government-mandated services. Since the start of the COVID-19 pandemic, Australia's airports are collectively losing around \$320 million a month in revenue. At the end of September 2020, accumulated losses were already over \$2.5 billion. By the end of 2020, it is calculated airport losses will reach \$3.5 billion. (p. 5.)

The global aviation industry's view is the post-COVID recovery will be lengthy, with optimistic scenarios forecasting a return to pre-pandemic traffic levels by 2023; while more a pessimistic view has recovery taking place during 2024.¹ The long-term impacts on Australia's airports will be felt through delays in re-hiring skilled airport operating staff, deferment or cancellation of capital investment and the continued impacts of reduced airport activity on local and national economies.

Even with the likely rollout of an effective vaccine in 2021, without a significant external stimulus to improve Australia's aviation industry during 2021 there is a growing risk of airport services and jobs being cut to save costs, leading to a loss of staff with essential operational and critical safety skills. Some regional airports will also see a reduction in services as airlines reconfigure their networks to the new operating environment, potentially isolating regional communities for whom aviation is often the only way to reach a major city other than driving hundreds of kilometres. (p. 6).

c. the immediate and long-term impacts of the COVID-19 pandemic response on all sectors that rely on aviation;

There is no doubt that many key sectors of the economy rely on aviation, particularly inbound tourism, international education and outbound agribusiness exports have suffered heavily from the Federal Government's initial pandemic response, which closed international borders and led to the dramatic fall off in passenger and freight capacity in 2020 shown in Figure 1. The reopening of interstate borders by state governments and reintroduction of capacity on to the national network by airlines will go some way toward lessening the impacts on aviation-dependent sectors of the domestic economy in 2021, alongside a successful rollout of a vaccination program.

Given the prospects for a slow recovery in the global aviation sector as the pandemic recedes, the best way for the Federal Government to relieve pressure on these sectors reliant on international aviation is to carefully reintroduce capacity into Australia's aviation industry by:

- Implementing safe travel 'bubbles' with key inbound and outbound nodes of the global aviation network such as New Zealand, Singapore, South Korea and Japan;
- Implementing safe travel 'lanes' to serve key sectors of the economy, such as international students and inbound tourists from countries within safe travel 'bubbles', and;
- Easing inbound passenger caps to provide economically viable load factors for airlines and increase international RPT services serving the safe 'lanes' and 'bubbles'.

These actions, along with successful international control of COVID-19 should bring international RPT capacity back into the aviation market serving Australia from national and overseas carriers. This will also return much-needed air freight capacity back to Australia skies. These measures will also help airports, as increasing the numbers of international passenger arrivals and departures above the catastrophically low levels at present will provide much-needed movement of people and freight to help restart domestic and international aviation networks, particularly at Australia's major international gateway airports. Increased passenger movements will also help offset the high fixed costs of keeping airports open and operational. (p. 10.)

To provide this urgently needed external stimulus, the AAA calls on the Federal Government to develop a national aviation plan to restart the aviation industry, the tourism sector and the broader economy. An immediate focus for airports must be on financial relief from government-mandated charges. In the longer term, a pathway to recovery must include strategic government investment in airports to make them economically, socially and environmentally sustainable. The AAA's recommendation to Government of a stimulus plan for the airport sector is outlined in the AAA's \$835 million *Airport Relief and Recovery Plan*. (p. 3-4.)

d. the adequacy of government industry support and procurement and programs for the social and economic well-being of workers for all sections of the aviation industry to survive the downturn caused by the pandemic;

¹ International Air Transport Association (2020), *Recovery Delayed as International Travel Remains Locked Down*, Media Release 28 July. Viewed on 8 December 2020 at: <https://www.iata.org/en/pressroom/pr/2020-07-28-02/>;
Airport Council International (2020), *The impact of COVID-19 on the airport business*, 8 December. Viewed on 8 December 2020 at: https://aci.aero/wp-content/uploads/2020/12/Advisory_Bulletin_The_impact_of_COVID_19_on_the_airport_business.pdf

While airports have played their part during the pandemic of providing essential transport infrastructure and services, it is increasingly clear the Federal Government's support to the aviation industry during the pandemic has not adequately assisted airports. While the Federal Government's commitment of \$2.09 billion in direct financial support in 2020 has been welcome in keeping the aviation industry functioning, this was underwritten largely by airports absorbing their high fixed operating costs to underwrite the Government-subsidised aviation.

As with targeted aviation industry support, JobKeeper, the Federal Government's economy-wide support measure was inconsistently applied across the airport sector. Privately operated airports are eligible for JobKeeper, however the exclusion of local governments from JobKeeper disproportionately affected council-operated airports and the communities they serve in regional and remote Australia. The exclusion of foreign-owned firms from JobKeeper eligibility also cut out many links in the aviation value chain from income support, including ground handling and security screening firms. This has meant skilled workers in the value chain have drifted away from airports to other parts of the economy. This will slow the restart of the aviation industry through the need to meet statutory requirements to re-certify, re-qualify and re-accredit staff returning to the sector.

Airports receive just 11 cents in every dollar of Government aviation support funding – Of the \$2.09 billion in aviation support provided during 2020, 66% flowed to airlines (\$1.38 billion), while another 23% has offset foregone fuel excise revenues and regulatory charges from CASA and Airservices Australia (\$476 million). Only 11% of Federal Government support (\$240 million) to aviation has flowed to airports; either through the \$66 million in capital works grants to assist regional airports comply with new Government-mandated aviation security requirements, or the rebate of domestic security screening charges (\$173 million).²

Rebates of government-mandated aviation security screening costs have been a significant issue for airports during the pandemic. In normal times, the aviation security system at airports covers its operating costs through a modest charge for screening on every airline ticket, which is then passed back to airports. Presently, the high fixed costs of security screening are spread across historically low passenger numbers, leaving airports to carry the gap between operating costs and the per-passenger charge on behalf of the whole industry.

The AAA calculates this funding gap in 2020 for both domestic and international screening at approximately \$110 million, even after the provision of \$173 million in Federal Government assistance for domestic security screening rebates. Part of this funding gap involves international security screening, where no Government assistance has been provided, despite 2020 passenger numbers falling by up to 98% compared to 2019 and an ongoing requirement to keep international airports open despite the greatly reduced numbers of passengers and aircrew. (p. 14.)

e. the immediate and long-term employment landscape within Australia's aviation sector;

There is still great uncertainty around the employment landscape in Australia's airport sector. Any recovery in airport employment depends on the levels of recovery of the broader national economy and global aviation industry. While airports have attempted to forestall wholesale job losses during the pandemic, it is estimated more than 25% of the pre-pandemic airport workforce have lost their jobs, with another 50% being put on reduced hours or drawing down leave entitlements. (p.5.)

Reductions in core airport jobs also affect the jobs in airport-related service industries (food and beverage, retail, hospitality) and the deferral or slowing down of on-airport capital works and construction activity. This means reduced wages and salaries for staff, contractors and suppliers, with negative effects across the wider economy, particularly in regional Australia.

Due to the significant redundancies and furloughs at Australian airports during the pandemic, there has been a loss of trained and qualified personnel from airports throughout 2020. Many of these former staff members and contractors have, by necessity moved to other parts of the economy, representing a significant loss of competency, skills and experience in airport operations. Once the

² Department of Infrastructure, Transport, Regional Development and Communications (2020), 'Responses to Senator Sterle's written questions, Part 1', *Table Documents*, Senate Rural, Regional Affairs and Transport (RRAT) Committee 2020-21 Budget Estimates, 19 October. Viewed on 11 December 2020 at: https://www.aph.gov.au/Parliamentary_Business/Senate_estimates/rrat/2020-21_Budget_estimates/Infrastructure_Regional_Development

post-pandemic recovery gets under way, there will be a need to attract these disengaged personnel back into the airport sector workforce.

The AAA has begun to keep track of staff and contractors who have separated from airports to identify a 'Reserve' of competent personnel, who could be relatively quickly re-qualified or trained and return to fill roles at airports. The AAA has identified an opportunity to develop, implement and manage a program like the Australian Health Practitioners Registration Agency (AHPRA), which has established a pandemic response sub-register to help with fast tracking the return to the workforce of experienced and qualified health practitioners for up to 12 months. (p. 20.)

It is noteworthy that while policy attention has been paid by the Federal Government in recent years to skills shortages in the commercial and general aviation sectors, particularly through the 2018 report of the Expert Panel on Aviation Skills and Training³. However, the airport sector of the aviation industry has not had similar policy attention paid to it, despite the shortages of skilled airport personnel such as Aerodrome Reporting Officers, Works Safety Officers, airfield technical inspectors and security screeners of passenger and baggage. The AAA is directly seeking from the Federal Government's \$3 million over four years for a targeted airport sector skills package to ensure qualified airport personnel can return to the industry and to attract and retain new entrants to a range of airport career pathways. (p. 20.)

f. what policy and practical measures would be required to assist the industry to recover in the medium term; and

The security screening model is not working - The COVID-19 pandemic has stressed tested many significant systems in the aviation industry. The current, volume-driven, market-based funding model of aviation security screening has failed the test. An immediate practical measure to assist the airport sector toward recovery in the medium term is for the Federal Government to cover the costs of providing government-mandated domestic and international security screening.

A significant drop in domestic and international passenger numbers has undermined the pre-pandemic aviation security screening cost recovery model, leaving airports carrying a significant overhang between the fixed costs and the actual per passenger costs of providing screening. The AAA estimates the shortfall in security screening charges carried by airports to the end of 2020 is approximately \$110 million, despite \$173 million in Federal Government assistance for domestic security screening rebates. Once Government support for domestic security screening ends on 31 December 2020, the 2021 shortfall is estimated at \$172 million.

Airports cannot continue to subsidise the rest of the aviation industry by providing Government-mandated aviation security services below cost. Under the existing funding model, there is a significant risk when screening charges are reset for 2021, there will be significant increases predicted in domestic security screening costs of almost 400% and international screening costs of approximately 550%. This problem effects the entire aviation industry and one ultimately affecting the travelling public through the cost of airfares. (p. 14-15.)

A sustainable model of infrastructure investment in regional airports – The Federal Government's grant funding programs have been valuable in ensuring regional airports receive safety critical funding of aeronautical infrastructure. The currently underway final rounds of the Remote Aerodrome Upgrade Program (RAUP) and Regional Airports Program (RAP) expose the need for a sustainable, ongoing and systematic model to fund infrastructure investment in regional airports. A sustainable funding model would provide certainty for airports and a more structured and systematic approach for regional airport infrastructure investment and asset management as recommended by the Productivity Commission in its final report of the inquiry into the regulation of airports.⁴ (p. 18-19.)

Support the 'missing middle' airports – Australia's 'missing middle' of regional airports consists of 17 mid-tier regional RPT airports, serving high value, economically diverse regions in the

³ Department of Infrastructure, Transport, Regional Development and Communications (2018), *Final Report of the Expert Panel on Aviation Skills and Training*. Accessed on 12 December 2020 from:

https://www.infrastructure.gov.au/aviation/publications/files/Final_Report_of_the_Expert_Panel_on_Aviation_Skills_and_Training.pdf

⁴ Productivity Commission (2019), *Economic Regulation of Airports*, Inquiry Report No. 92, 21 June. Accessed on 16 December 2020 from: <https://www.pc.gov.au/inquiries/completed/airports-2019/report/airports-2019.pdf>

Northern Territory, NSW, Queensland, Tasmania and Western Australia collectively moving over 11.5 million passengers in 2018-19. These airports would collectively have the 5th highest patronage in Australia. The range of ownership models and the size of these airports make them ineligible for existing regional airport infrastructure grant programs, and deny them same access to long term, 'patient' capital as the top 10 major airports.

There is another cohort of seven 'metro-regional' airports which are excluded from grant funding programs because they are in capital cities. Airports such as Essendon Fields and Moorabbin in Melbourne are forgotten gateway airports for charter flights, while their only RPT services come from regional airlines. Metro-regional airports such as Bankstown in Sydney and Essendon Fields also provide significant metropolitan bases for emergency services and firefighting aircraft.

Many of these mid-tier airports have shovel ready projects to upgrade or expand critical airport infrastructure. These projects could be brought forward through a new, targeted infrastructure program. A funding program of \$200 million over 4 years would help these 'missing middle' airports become enablers of economic development and unlock much needed infrastructure investment in mid-tier airports. (p. 19-20.)

Energy and water efficient airports – Airports have significant opportunities available to improve environmental outcomes and lower their operating costs by reducing consumption and more efficiently using energy and water resources. Areas where Australian airports have already improved and can continue to improve their energy and water efficiency include:

- Renewable energy generation and storage;
- Water harvesting and recycling;
- Replacing incandescent lighting with LED lighting on runways and taxiways, and;
- Fixed electrical ground power and air systems for idling aircraft. (p. 16.)

g. any related matters.

National Approach to Border Control – To ensure a unified and consistent approach to border control, the Commonwealth must assume control of domestic border policy during a crisis such as a pandemic. Throughout the pandemic, inconsistent application of the definition of an infection 'hot spot' and the arbitrary positions on border opening and closing by states and territories have had a significant effect on both the aviation sector and the national economy. This arbitrariness and inconsistency diminishes confidence in the aviation industry and the travelling public due to uncertainty on being locked in or out of a state or territory at short notice.

The recent outbreak in South Australia saw most states and territories close their borders at very short notice, requiring travellers to either quarantine at their port of arrival, turn back to South Australia or be unable to return home. By having the Federal Government take control of national borders through regulation in times of crisis, a more controlled and proportionate responses to future crises would better support the national interest. Improving data collection and analysis at borders would help the Federal Government to better manage risk and make informed decisions on border controls.

The emerging challenge of airport 'health security' – COVID-19 has opened a new front in the aviation security environment, particularly now health concerns have moved into the aviation security environment. In the longer term, the Federal Government may seek to mandate new pre- and post-travel health security measures for international travellers. In complying with any new mandated requirement, airports will require funding to expand or remodel terminals. In this case, the AAA recommends the Federal Government develops a fund to support the infrastructure and facilities costs for international airports to comply with future aviation health security mandates.

Australia's airports are ready and able to assist government in its task of reopening international borders to help bring Australians home and keep the crucial international tourism and freight markets open. Airports are working with Government and trusted medical advisers on a plan to achieve this outcome, developing consistent protocols for all stages of the air travel journey. To make this possible prior to the implementation of a vaccine program, the AAA believes a staged 'traffic light' approach needs to be developed, combined with the use of emerging COVID-19 diagnostic technology such as rapid antibody testing and contact tracing. (p. 13-14.)

The AAA thanks the Committee for the opportunity to make this submission outlining the issues affecting the airport sector during the COVID-19 pandemic. It looks forward to giving evidence before the Committee at a public hearing in early 2021 to further expand on this submission.

Yours sincerely

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Chief Executive