



Committee Secretary
Senate Rural and Regional Affairs and Transport References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary

Senate Inquiry - The future of Australia's aviation sector, in the context of COVID-19 and conditions post pandemic

Thank you for the opportunity to provide a submission to the above Senate Inquiry.

Airservices Australia (Airservices) is Australia's air navigation service provider. We are responsible for Australia's airspace management, aeronautical information, aviation communications, radio navigation aids, and aviation rescue fire fighting services.

Airservices is a government-owned organisation established by the *Air Services Act 1995*, and a designated corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013*. We are funded through customer charges for our services and by capital raised from debt markets. The Airservices Board set our prices, after extensive consultation with industry and oversight by the Australian Competition and Consumer Commission.

Our purpose, as defined in the *Air Services Act 1995*, is to:

Provide facilities and services for the safety, regularity and efficiency of air navigation within Australian-administered airspace. This includes providing air traffic services, aviation rescue fire fighting services, aeronautical information, radio navigation and telecommunications services.

Effect of COVID-19 and immediate response

The COVID-19 pandemic created unprecedented disruption in the global aviation industry. The impact of the pandemic on the aviation sector was unforeseeable, and significantly worse than previous shocks such as 'September 11' and the collapse of Ansett Airlines (see Figure 1).

The closure of international and domestic borders in March 2020 resulted in a significant ongoing reduction in international and domestic air traffic, plunging the aviation industry into a period of ongoing volatility and uncertainty.

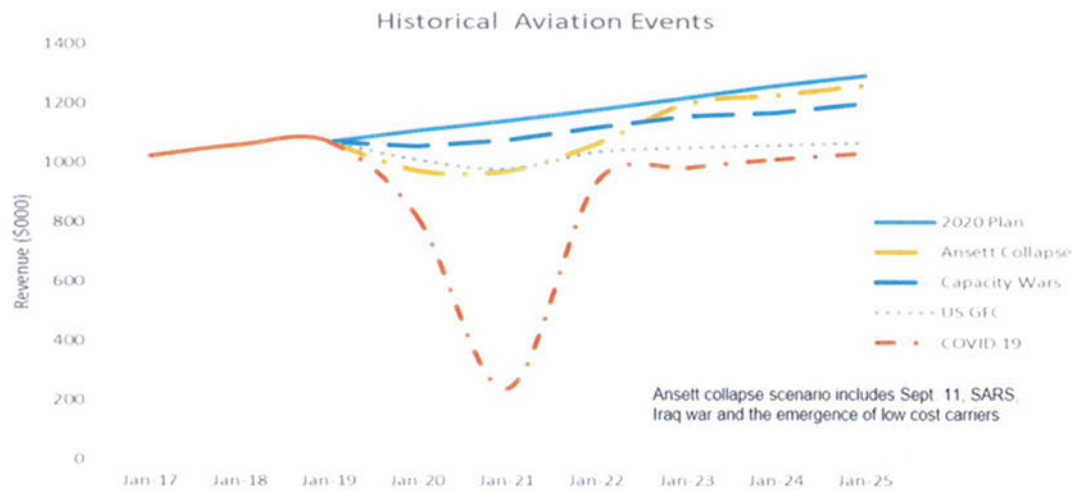


Figure 1

Our aviation customers have experienced a significant financial impact, which in turn has severely affected Airservices financial performance. Airservices revenue fell by 24 per cent in 2019-2020. During the initial wave of the pandemic in the April to June 2020 quarter, Airservices experienced an 80 per cent decrease in revenue year-on-year, and urgent government financial support was required to fund the delivery of ongoing critical aviation services.

Our most important priority in responding to the pandemic was to protect the continuity and integrity of our operational service delivery, and the health and safety of our people. We moved quickly to implement precautionary measures to minimise the potential for an outbreak in our facilities. This included restricting access to operational areas, closing non-essential facilities such as gymnasiums and canteens, transitioning over 1000 staff to work remotely, and the implementation of more resilient rosters across all service lines.

Our response was governed by a COVID response team, oversighted by the Executive, which met daily for several months to ensure risks were being closely managed. We worked collaboratively with employee representative groups during this time to enable necessary changes to be rapidly introduced, and to ensure that we reached the best outcome for our people and our operations.

In the early stages of the pandemic we also moved quickly to reduce costs in response to dramatically declining revenue and have continued to ensure that costs are kept to minimal but sustainable levels going forward. We dramatically reduced overtime, asked employees to take paid leave to reduce our leave liability, and we ceased recruitment and other discretionary expenditure. We also refocused our investment program to prioritise the delivery of OneSKY and its enabling projects and to cease or defer non-essential work, investing in infrastructure that will deliver value to our customers, while accommodating volatility safely and efficiently. This yielded savings of \$30 million in the final quarter of 2019-2020 and will deliver \$100 million in savings in 2020-2021.

Throughout this challenging period, Airservices continued to deliver on its mandate to provide safe and efficient services to the aviation industry without disruption, and for the fourth year in a row we maintained our exceptional safety record of zero significant attributable safety occurrences. Despite the significant drop in overall air traffic movements, we saw a continuation of some domestic traffic, international freight services, charter flights (in particular fly-in fly-out services) and a surge in general aviation at regional airports. Air traffic control and aviation rescue fighting services were essential to support the ongoing safe operation of these aviation services.

Government Assistance

In March 2020 the Federal Government announced its first tranche of assistance to the aviation industry via the Australian Airline Relief Package. The \$715 million package involved the refunding and ongoing waiving of a range of Government charges on the industry including aviation fuel excise, Airservices charges on domestic airline operations and domestic and regional aviation security charges.

Since this package was announced, a number of other funding support programs for the aviation industry have been announced by the Government that provide direct financial support to Airservices. The total support received by Airservices in financial year 2019-2020 was \$250 million. For the financial year 2020-2021 the Government will provide Airservices a further \$581 million for a total of \$831 million by the end of 2020-2021.

This funding support enabled Airservices to maintain its critical air traffic control and aviation rescue fire fighting services to the aviation industry throughout the pandemic. It also provided Airservices with time to ensure that measures necessary for Airservices' long-term financial sustainability can be implemented in a safe, methodical and sustainable way.

Airservices is continuing to work with the Government to establish the financial needs of the organisation for the next financial year.

Post pandemic

While the short-term outlook is negative for commercial aviation, long-term industry growth is still expected. While domestic air traffic is likely to recover before international, there will be challenges for both markets. Demand for domestic business travel will remain low for some time, as organisations face economic constraints and more people work from home. Once international borders open, confidence and uptake of a vaccine will be a key factor for driving industry recovery.

Australia has traditionally been reliant on the use of gateway airports such as Sydney and Melbourne to connect international travellers to the rest of our nation. With more 'point to point' travel, direct international flights into 'non-traditional' Australian gateway cities may emerge as a growth market for our customers, also further driving complexity in our airspace.

The below charts indicate the actual and forecast effects of COVID-19 on Airservices monthly revenue:

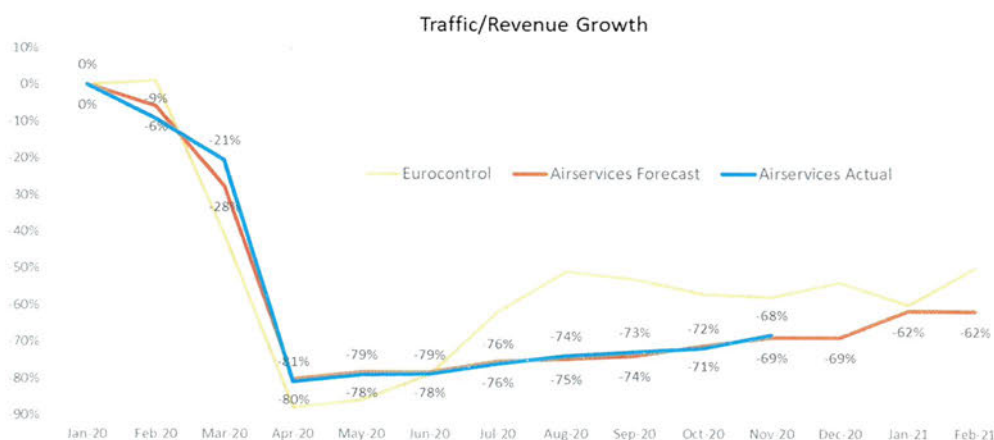


Figure 2



Figure 3

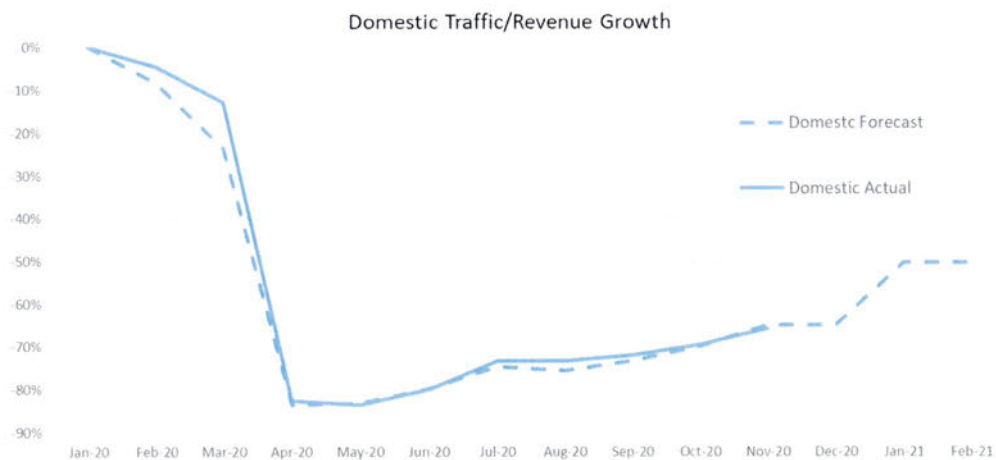


Figure 4

Under Airservices' current forecasting, a return to 80 per cent of pre-COVID traffic is not predicted until around 2024. In many ways, COVID-19 has accelerated the disruption that the aviation industry was already facing.

While our immediate response positioned us well to manage through the crisis, Airservices will need to continue to adapt to respond to anticipated changes in customer demand, assist the aviation industry during the ongoing recovery from this crisis, and place us on a sustainable trajectory to 2025 and beyond.

The lessons learned during this period demonstrate the criticality of a resilient and agile workforce, a flexible and efficient cost base and flexible service levels that can be adapted to match the needs of our customers.

Airservices strategic plan includes the following key objectives to ensure that we can continue to deliver on our mandate into the future:

- Adjusting our services to be scalable and more closely aligned to customer requirements while maintaining safety as the first priority
- Becoming more inclusive and agile, by building a culture of trust, care and accountability
- Transitioning to a more flexible cost structure, with lower operating costs

- Accelerating the introduction of digitised services to prepare for future operating environments and improve productivity
- Transforming our asset base to align capability to service demand and shift capital commitments to operating expenses.

In closing, the COVID-19 pandemic has reinforced the importance of aviation in supporting our economy and the social fabric of our communities, and the vital role Airservices' plays in the safety of air transport. It has also reinforced the need for the aviation industry to continue to adapt to manage through ongoing uncertainty and volatility.

As the aviation industry adjusts to its 'new normal', Airservices will also continue to evolve to ensure that we can continue to support the safety, efficiency and regularity of all those that use our skies.

If you require any further information, please do not hesitate to contact me.

Yours sincerely

Jason Harfield
Chief Executive Officer
16 December 2020