



AUSTRALIAN
AIRPORTS
ASSOCIATION

The Future of Aviation Issues Paper

**SUBMISSION FROM
AUSTRALIAN AIRPORTS ASSOCIATION**



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EXECUTIVE SUMMARY

Airports are critical pieces of national infrastructure keeping communities connected and linking Australia to the rest of the globe.

Airports are the gateway to our nation's world-class tourism markets, essential for global business, the facilitators of emergency support, ensure the swift delivery of essential medical supplies, trade and freight.

Airports assist in bushfire fighting operations, farming activities and in many rural and regional communities, they are the only public transport link to larger towns and cities.



Before the COVID-19 pandemic, our nation's airport sector supported more than 200,000 jobs and contributed \$35 billion – around two per cent – to Australia's Gross Domestic Product (GDP).

During the pandemic, airports – large and small – have been good corporate citizens, staying open to help the government bring Australians home from overseas, to move freight in and out of the country and to get essential workers such as medical professionals to where they're needed.

But this has all come at a significant cost, collectively losing around \$320 million in revenue a month. By the end of 2020, accumulated losses are predicted to reach more than \$3.5 billion.



Our airports are hurting. It doesn't matter if there are two planes flying in or 200 – the operating costs of keeping the runways and terminals open remains largely the same.

The airport sector was already among the world's most lean and efficient before the pandemic and now it's reaching the limits of how much it can absorb.

Australia's entire aviation sector is in need of a whole of government plan to help the industry reach the other side of the pandemic and prosper in the years beyond.

POLICY REFORM

Security Screening

- A post-COVID review of security screening charges to reform the funding of the aviation security system.
- Postpone installation of upgraded security screening infrastructure at major airports.
- Review of government COVID support measures on security screening. The Federal Government should look at recovering the shortfall between the fixed costs of providing screening and the actual amount recovered from passengers.
- End the 'dual system' security screening regime at regional airports to reduce compliance costs.

Reducing the regulatory burden

- Lift the Major Development Plan (MDP) threshold amount for on-airport projects from \$25 million to \$50 million.
- A more efficient demand management regime at Sydney Airport which will help increase capacity and reliability across the national aviation network.
- A solution to PFAS on airports.

Airport leases

- The Federal Government should allow federally-leased airports to exercise the option to extend their leases and provide greater certainty for master planning and development on airport land.

Re-open Australia

- Implement travel bubbles with key COVIDSafe countries including New Zealand, Singapore, South Korea, Taiwan and Japan to free up hotel quarantine, re-start international tourism and assist in the movement of freight.

Ex Gratia Land Tax (EGLT)

- Cease the introduction of the new EGLT regime until the pathway to recovery for the industry is clear.
- Find an alternative EGLT method which maintains competitive neutrality between on-airport and off-airport land.

Border Controls

- A better co-ordinated, unified and consistent approach to controlling domestic borders during a future crisis. The aviation industry and airports especially have suffered significant impacts due the different positions of states and territories on border openings and closings.

CASA funding reform

- Reform CASA's funding model to reduce dependence on fuel excise, which is in long-term decline.
- Find alternatives that do not rely on direct cost recovery from industry for most of CASA's funding.

FEDERAL GOVERNMENT SUPPORT

The Australian Airports Association (AAA) has identified opportunities for the Federal Government to support the airport sector in 2021 and beyond through funding an \$835 million Airport Relief and Recovery Plan.

\$282 million Relief component targeted at offsetting the fixed costs of airport operations during FY 2019-20 and FY 2020-21 to rebuild airport finances run down during the pandemic and support in FY 2020-21 and into FY 2021-22 to assist the airport sector as domestic and international air travel begins to recover.

For **Calendar Year 2020**, the relief component of \$127 million would provide critical COVID-19 assistance to airports in FY 2019-20 and FY 2020-21:

\$110m

for domestic and international security screening to cover the shortfall between predicted and actual costs.



\$10.2m

for COVID-safe terminal cleaning.



\$6.8m

for additional airfield security.



FEDERAL GOVERNMENT SUPPORT

For **Calendar Year 2021**, the relief component is costed at \$155 million to assist airports as the network begins to recover over FY 2020-21 and 2021-22:

\$123m

for domestic and international



\$20m

for COVID-safe terminal
cleaning.



\$12m

for additional airfield security.



The AAA also recommends the government funds a \$553m Recovery component over four years from FY 2020-21 to get airports back on track sooner in a state of good repair.

- \$100m to fund expanded security screening infrastructure and [capital works at major airports](#).
- \$100m over four years for additional rounds of the [Regional Airport Program](#).
- \$40m over four years for additional rounds of the [Regional Airport Upgrade Program](#).
- \$200m over four years for a new aeronautical infrastructure program targeted at [mid-sized regional airports serving high-value tourism](#) areas.
- \$10m for a new '[Domestic Air Route Market Development](#)' grant program to incentivise the pioneering of new domestic routes.
- \$100m over four years for a [new airport energy and water efficiency](#) modernisation package.
- \$3m over four years to assist the AAA in attracting and [retaining skilled airport staff](#) through the AAA obtaining RTO accreditation to better design, develop and deliver education programs.

Introduction: Australia's airports are still struggling to keep the lights on

Airports have provided an essential service during the pandemic by keeping domestic and international air routes open for passenger and freight during the crisis, repatriating Australians from overseas, keeping a minimum domestic air network functioning and ensuring air freight stayed moving.

Passenger numbers have plunged dramatically, as shown in Figure 1 below. International numbers have fallen by 98% over the same numbers 12 months ago. 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 those in the previous year.

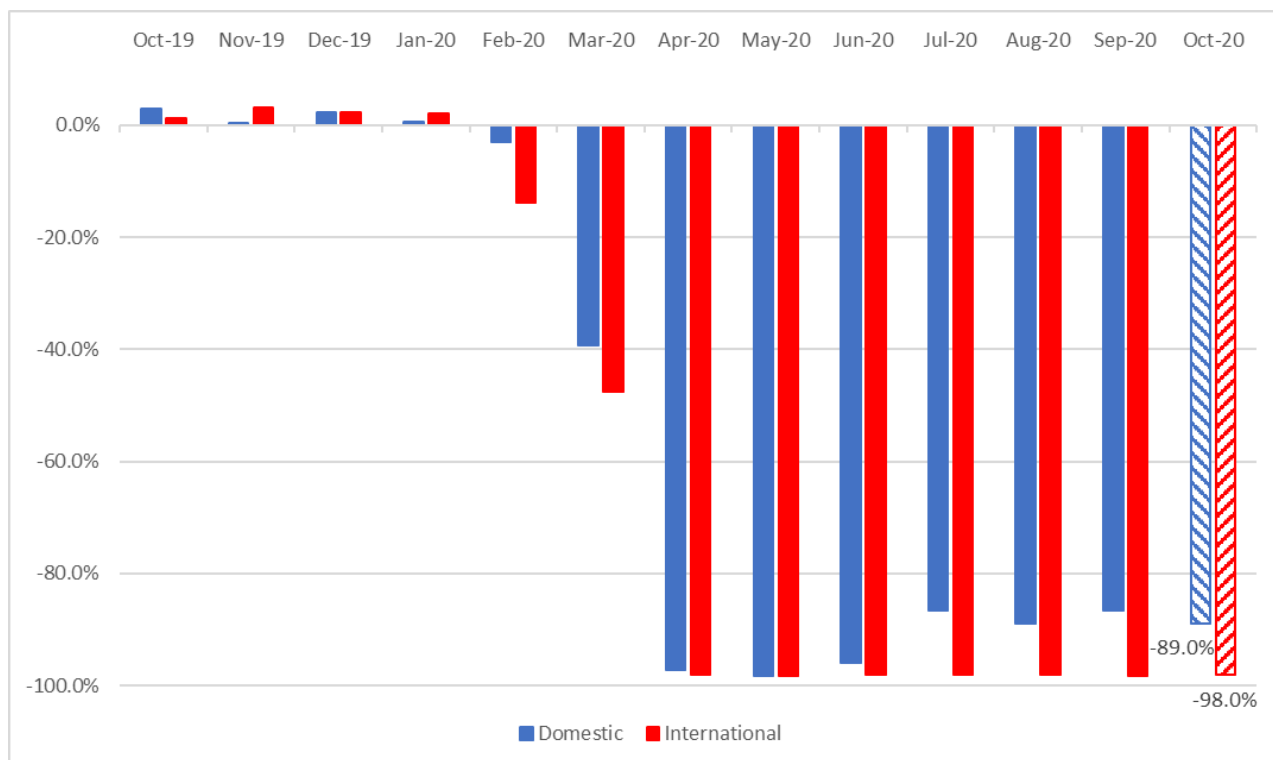


Figure 1: Comparison of Domestic & International passenger numbers October 2019 – October 2020
– Source: AAA analysis of BITRE and airport data

Maintaining this essential service has come at a significant cost. Keeping the lights on in terminals and on runways remain fixed regardless of the activity levels, particularly providing security and other 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. Should current trends of low aviation activity continue, it is calculated airport losses will reach \$3.5 billion by the end of 2020.¹

While airports have attempted to forestall wholesale job losses, it is estimated 25% of the pre-pandemic airport workforce have lost their jobs, with another 50% put on reduced hours or drawing down leave entitlements. Reductions in jobs and core airport activity also affect airport-related services (food and beverage, retail, hospitality) along with a deferment of capital works and construction activity. This means reduced wages and salaries paid to staff, contractors and suppliers which has also had negative effects in the wider economy, particularly in regional communities.

¹ Based on AAA survey data of member airports in April and July 2020.

Australia needs a sustainable aviation network, but there is a growing risk services and jobs will be cut to save costs, leading to a loss of staff with essential operational and critical safety skills. For some airports, it will see a reduction of services as airlines reconfigure their networks, potentially isolating regional communities. For many of these communities, aviation is often the only way to reach a major city other than driving hundreds of kilometres.

Airports want to look to the post-pandemic future and be the open, safe and secure facilitators of domestic and international transport they know they can be. To do this, the Australian Airports Association (AAA) calls on the Federal Government to develop an aviation plan to restart the aviation industry, the tourism sector and the broader economy. An immediate focus must be on financial relief for airports from government-mandated charges, while in the longer term, a pathway to recovery must include strategic government investment in airports to make them economically, socially and environmentally sustainable.

Part A: COVID-19 Response – COVID Objective 1: Maintaining essential air connectivity – Providing a minimum domestic network

What constitutes a minimum RPT network?

In the abstract, the minimum regular public transport (RPT) air network in Australia is segmented into three parts:

1. A set of fully commercial intercapital trunk routes which fully cover their operating costs;
2. Secondary routes which are partially commercial to varying extents, but are valuable feeders of passengers and freight into an airline's regional or national network, and;
3. Non-commercial or peripheral routes, requiring a level of ongoing subsidy to provide a basic level of passenger and freight network connectivity.

The dividing lines between these three tiers are commercially sensitive matters for domestic airlines. By taking the pre-pandemic levels of service as a proxy for profitability, the Brisbane-Sydney-Melbourne 'golden triangle' and Sydney-Perth and Melbourne-Perth RPT routes make up the commercial segment, along with some other key intercapital and intrastate routes. Some of the more lightly served intercapital and intrastate RPT routes are likely to be partially commercial, but still valuable as part of an airline's total network. It is highly likely that most outer regional and remote routes are non-commercial, particularly routes which are already regulated by or receiving operating subsidies from state, territory or federal governments.

In some respects, the COVID-19 pandemic made visible the outlines of this three-tiered network. Airlines were still operating unsubsidised services at reduced levels on the 'commercial' segments of the network, while the Commonwealth-supported Domestic Aviation Network Support (DANS) and the Regional Aviation Network Support (RANS) reflected to some extent the near-commercial and non-commercial networks.

All three segments of the RPT network are important. On the commercial routes, regulatory oversight is required on the 'golden triangle' and other key routes to prevent anti-competitive behaviour and misuse of market power by airlines. Beyond these fully commercial corridors, the Federal Government's funding and regulatory focus should be on routes serving marginally commercial and non-commercial routes to ensure network coverage is maintained to a wide range of town and cities in the post-COVID aviation environment.

Are there options to improve the effectiveness of governments' support for maintaining a minimum RPT network?

The AAA's view is support from the Commonwealth and other governments for a minimum or core RPT aviation network in the post-COVID environment should be more tightly tied to broader economic and population policies. These policies should also be better integrated between the different levels of Australian governments to produce the greatest effect from investment. For example, Federal Government decentralisation policies designed to move households and firms to

regional cities aiming to build economic development, resilience and liveability in regional areas should consider partnering with state and local government to co-fund airport upgrade projects. This would ensure regional cities are better connected to capital cities and other major centres as part of a core network of frequent, connected air services.

The Federal Government's Regional and City Deals shows how tiers of governments can tie together funding programs which support the maintenance of an RPT network. The Hinkler Regional Deal committed more than \$62 million in joint funding from Federal and local governments for projects at two key airports in the region. At Hervey Bay, a road project connecting the town to the airport complemented redevelopment of the airport serving the high value tourist area of Fraser Island. At Bundaberg Airport, a commitment to build a training and simulation centre for the Royal Flying Doctor Service (RFDS) complemented a previous investment in an aeromedical hub by the Federal Government and the RFDS serving Central Queensland.

The greatest beneficiaries of improved airports and air services would be 'inner' regional cities within 60-90 minutes flying time of a capital city making day return business and other discretionary trips attractive. Data from a sample of regional airports indicates pre-pandemic, around 60% of passengers passing through their airports were flying on business, with the remainder travelling for tourism, visiting friends and relatives or other reasons. By strengthening key 'inner' regional cities as hubs of a core RPT network to capitals, they can also act as hubs within their region. These cities can act both as regional hubs, providing medical, education, leisure and other services to outer regional and remote towns and hubs, funnelling passengers and freight onto Australia's aviation network to reach nationally and globally connected airports.

Alternative transport improvement programs to increase regional Australia's accessibility to the transport network such as new faster or high-speed rail routes or upgrading the highway system come with high costs and long build times. Capacity upgrades at capital city and regional airports for operation of improved regional RPT air services can be delivered quickly and at lower cost than road and rail-based alternatives.

What is the best way for the Government to scale back support as the aviation sector recovers at a different pace for different routes?

In the AAA's view, it will take some time for the aviation industry to recover, so Federal Government support for essential services will be required to enable airports to support the national economy. The aviation industry acts as an enabler to many vital sectors of the economy, including agricultural exports, inbound international tourism and education.

The Federal Government could review the Domestic Aviation Network Support (DANS) program, scaling back DANS funding for commercial routes and reviewing other near-commercial routes as passenger loadings improve. Similarly, reviewing the Regional Aviation Network Support (RANS) program to begin winding down support to near-commercial regional routes as loadings improve would begin to identify for government, those routes which require additional ongoing support.

In terms of airports, there will remain an ongoing need for support on security screening charges while passenger numbers remain low. The Federal Government must support the shortfall between the fixed costs of providing government-mandated domestic and international security screening and the actual amounts. As demand for travel recovers and activity returns to airports, government support for security screening will begin to taper down toward full recovery of screening costs through passenger movements.

COVID Objective 2: Preserving critical aviation capacity – Supporting airlines and airports

What critical components of the aviation sector need support during the COVID-19 crisis?

The COVID-19 crisis exposed the challenges of our federated system, particularly in relation to the way domestic border control was conducted, with the varying positions of the states and territories. A better coordinated, unified and consistent approach to controlling domestic borders during a future crisis is an important lesson learned from the pandemic. The aviation industry and airports especially have suffered significant impacts due to the different positions of states and territories on border openings and closings. This has diminished the public's confidence to travel due to uncertainty on whether borders will be open or closed in response to flare-ups and outbreaks of the virus.

While the significant levels of direct Federal financial support provided to the aviation sector during the pandemic were appreciated by the industry, in fact, a relatively small amount (less than 20%) of this support has reached airports. Such support was either direct, through infrastructure grants and waivers or deferments of regulatory fees and charges or indirectly from rebates of domestic security screening costs.

Similarly, the economy-wide support provided by the Federal such as JobKeeper was inconsistently applied in the airport sector. The exclusion of local government from JobKeeper disproportionately affected local government-operated airports and the communities they serve in regional and remote Australia. Ring-fencing JobKeeper eligibility to exclude foreign-owned firms also cut off many links in the airport 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, slowing the restart of the aviation industry through the need to re-certify, re-qualify and re-accredit staff coming back into the airport sector.

Given there is a growing consensus among airports, airlines and international peak aviation bodies that the global industry's recovery from the pandemic will be prolonged, ensuring the long-term viability of the aviation industry is vital. The Commonwealth has an important role to play in supporting this aim. The AAA's view is more needs to be done in support of airports to ensure the sector remains viable. The outline of a future support package for airports is laid out in the 'Aviation Relief and Recovery Package' below, particularly extended wage subsidies for airport staff.

Are there options to improve governments' support for critical aviation connectivity and capacity during COVID-19?

The COVID-19 crisis will continue at varying levels of intensity until a proven vaccine is available and distributed in quantity. Until then, there is a need for ongoing support of the aviation industry, particularly for airports to ensure critical network connectivity and capacity is maintained for both domestic and international aviation. Of almost \$1.5 billion in direct Federal Government assistance to the aviation industry, airports received at most around 16% of COVID-19 related funding.

In its 2020-21 Pre-Budget Submission, the AAA outlined the situation facing airports and the policies the Federal Government could apply to assist the airport sector, which has suffered and continues to suffer from the COVID-19 downturn in aviation activity. The AAA's recommendations to government for greater support to airports still stands, including its 'Airport Relief and Recovery Program' (ARRP). The Relief component of the ARRP was initially costed at \$184 million and was targeted at the immediate needs of the airport sector at this time of low activity, consisting of operations support during Financial Year (FY) 2020-21 to keep airport terminals and runways safe and secure, including direct payments to airports to offset the gap in domestic and international security screening costs, enhanced COVID-safe terminal cleaning regimes and providing additional airfield security at airports.

Although airports were not successful in gaining greater financial support from the Federal Government in the 2020-21 Budget, airports remain in significant financial pain from the amount of unrecovered government-mandated charges stemming from the collapse domestic and international aviation during the COVID-19 crisis. AAA data indicates Australian airports are carrying approximately \$127 million in unrecovered government-mandated charges for Calendar Year (CY) 2020, including:

- \$110 million in shortfalls between predicted and actual per-passenger costs for domestic and international security screening;
- \$10.2 million for increased airfield security levels due to parking of grounded aircraft and;
- \$6.8 million in additional costs for enhanced COVID-safe terminal cleaning regimes.

Australian airports have carried these costs as good corporate citizens and as providers of essential transport infrastructure. As a recognition of the effort of airports to remain open during the crisis, reimbursing the unrecovered costs from CY 2020 and setting out funding to cover the shortfalls in mandated charges into CY 2021 would cost approximately \$282 million, or 19% of the previously committed Federal Government support to the aviation industry. The balance of airport support involves covering shortfalls in mandated charges in CY 2021 including:

- \$123 million for the gap between projected and actual domestic and international screening costs;
- \$12 million for increased airfield security and;
- \$20 million to cover enhanced COVID-safe terminal cleaning regimes.

Support which has been provided to airports to implement the new aviation security regime which was mandated pre-COVID such as the Regional Aviation Security Infrastructure Program (RASIP) and its predecessor program have assisted regional airports only. Support to major and regional airports also needs to be provided to meet these mandated security requirements either through grants or concessional loans for capital works, rebates for fixed security screening costs and non-monetary support such as deferments in implementation of the new security regime.

What is the best way for governments to scale back connectivity and capacity support to allow commercial airline operations to resume as the economy recovers?

A review of the RANS and DANS programs. However, airports and the communities they serve must be protected from the contraction of routes and service consolidation that airlines have already undertaken as their operations have been reconfigured. This is especially important in communities where air services provide the main or only form of public transport to large regional towns and capital cities.

Essential aviation related businesses – How has the COVID-19 crisis and the downturn in passenger movements affected essential aviation-related businesses?

During the pandemic, airports have passed through support to their commercial tenants consistent with the National Cabinet's Mandatory Code of Conduct on Commercial Leasing since April 2020. Based on data from two AAA surveys of airports in April and August 2020, a proxy for the downturn in aviation-related businesses was determined through the reduction in non-aeronautical revenues at airports. These revenues, including rents and income from a range of aviation-related businesses are calculated to be reduced by approximately \$104 million per month. By the end of 2020, accumulated losses from this part of the airport sector will be more than \$1 billion.

While it is difficult to separate out essential aviation related businesses from other businesses in the airport value chain, there is evidence of job losses, reduced activity and variations to contracts in a range of on-airport businesses. Off-airport businesses essential to aviation such as specialised consultancies and contractors have also been affected by the pandemic, as noted through the change in corporate membership of the AAA. These businesses have either downsized, merged with other businesses or ceased trading in response to the downturn in passenger numbers and reduced demand from airports for the goods and services they provide.

Are there options that industry and governments could consider ensuring these services are available to support the recovery of the aviation sector?

Airports have already passed through significant government support to essential aviation-related businesses that are located on airports, such as rent reductions and waiving/deferring land tax and rates in line with state & territory COVID-19 business support programs. The continuation of these programs for on airport tenants would be useful.

At a federal level, deferring the introduction of the proposed Ex-Gratia Land Tax (EGLT) regime until the pathway to recovery for the aviation industry is clear would be useful. Deferring implementation would help to reduce the increased costs of the new EGLT regime being passed on to airport tenants in essential aviation related businesses.

Another way the Federal Government could assist is to provide additional infrastructure stimulus funding to airports that would allow acceleration or re-prioritisation of safety critical infrastructure upgrades which have been deferred due to low activity and reduced revenues at airports. Similarly, stimulus funds for on-airport projects which reduce energy and water use in buildings and the use of recycled building materials in aeronautical infrastructure would also be a useful program that would assist Federal Government policies for achieving environmental and waste reduction targets. Further details on areas identified for further investment are provided elsewhere in this submission.

At a whole-of-Federal Government level, a comprehensive industry policy for the aviation, airport and aerospace sectors which encompasses skills, operations, onshore manufacturing and repair coupled to government co-investment with industry to realise the industry policy goals will be critical in the post-COVID aviation environment.

COVID Objective 3: Maintaining high value freight supply lines

What is the best way for governments to scale back international air freight support to allow commercial air freight operations to resume as the regional, domestic and international economies recovers?

The vast majority (around 80%) of air freight travels in the cargo holds of passenger aircraft rather than dedicated freighter aircraft. The best options to maintain and improve international air freight capacity is for the Federal Government to:

- Implement travel bubbles with key regional nodes in the global aviation network such as New Zealand, Singapore, South Korea and Japan;
- Ease inbound passenger caps to provide economically viable load factors for airlines to increase international RPT services within these bubbles and;
- By operating more international RPT services to and from Australia, Australian and overseas carriers can return much-needed air freight capacity on routes within the bubbles.

Increasing supply of cargo space through increased capacity on key routes will help to reduce airfreight costs and allow tapering of Federal Government subsidies for air cargo movements as delivered through the International Air Freight Assistance Mechanism (IFAM).

These measures will also help airports, as increasing numbers of international passenger arrivals and departures above the currently catastrophically low levels will provide much-needed movement of people 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.

Part B: Future of Aviation – Reducing the Regulatory Burden: General Aviation

The Government understands the key challenges facing the GA industry. Given the impact of COVID-19, are there other areas where governments should be focussing to support GA?

Continued urban growth in Australia's capital cities is placing pressure on airports from encroachment and inappropriate development. This is felt particularly keenly by the non-core capital city airports whose main business is General Aviation (GA) activity such as flight schools, recreational flying, aeromedical and firefighting aviation. The recent rise in aircraft noise complaints at urban, predominantly GA airports show these airports face continued challenges to their social licence to operate. These pressures are also shared by airports supporting GA activity located in high-growth regional areas.

To assist reducing the regulatory burden on GA airports, the Commonwealth should take a greater regulatory role in airport safeguarding. Using its leadership position in national bodies such as the Transport and Infrastructure Council (TIC) and its Senior Officers Council, it should work with states and territories to strengthen the application of the National Airport Safeguarding Framework (NASF) and Guidelines. This will benefit all airports, but particularly GA airports. More information on the AAA's views are in its submission to the Department's 2019 NASF review at [Attachment A](#).

Reducing the Regulatory Burden: Demand management at Sydney Airport

The review of the demand management regime at Sydney Airport is an important piece of work arising from the 2019 Productivity Commission inquiry into the regulation of airports. As Sydney Airport is Australia's busiest airport, the performance of the regime affects not only the operation of aviation operations in and out of Sydney, but also affects the performance of airlines and airports on the national aviation network. The review is also important to identify the needs of regional airports with services connecting to the national network through Sydney. The AAA supports the review and the contribution Sydney Airport and airports in regional New South Wales will make to the review.

Reducing the Regulatory Burden: Airspace Management

Airspace management is an issue of vital importance to airports, as effective airspace management can increase the throughput of aircraft at airports, maximising the efficiency of runway and terminal assets. Effective airspace management is also important as aircraft noise from aircraft take-offs and approaches and the flightpaths they use are key areas of community contention over an airport's social licence to operate.

While many in the community see aircraft noise as largely an airport problem, it is a tri-partite issue involving airports, airlines and the Federal Government's airspace manager, Airservices Australia. To maintain the social licence of the airport sector (and aviation industry more broadly), the major issues needing consideration from the Federal Government in shaping future airspace protection policies and regulations include managing the following trade-offs:

- How will airspace management plans and procedures balance the need for efficient airport operations with airline operating procedures the needs of the surrounding community?
- Can the airspace management regime hold the three main actors (airports, airlines, Airservices) accountable for the development and management of agreed flightpaths?
- Is the regime able to manage the expectations of all stakeholders, including the community when changes to airport infrastructure such as a new runway is introduced?

In early 2020, the AAA provided a submission to Airservices Australia's draft flightpath design principles documents, which is included at [Attachment B](#).

It is also important to ensure that airports which are currently curfew-free, continue to have the ability to operate unconstrained. Curfews are a blunt instrument which, while reducing aircraft

noise at a local level, have detrimental effects of the regional and national levels and constrain connections for international passenger and freight routes.

Reducing the Regulatory Burden: Airline access to domestic and international routes

Are there ways to further liberalise air access arrangements while maintaining Australia's high regulatory standards?

Prior to the pandemic, Australia's air access arrangements promoted innovation in developing new international and domestic air routes. Since the pandemic began, the freezing and rollover of existing international slots at Australian airports into 2021 and Federal Government's heavy restrictions on international aviation has paused liberalisation of access to international routes.

Domestically, airports and smaller operators have pioneered innovative new routes during the pandemic, serving city pairs with either strong seasonal traffic or currently underserved routes (e.g. Dubbo-Ballina, Canberra-Sunshine Coast), particularly between city pairs in regional Australia. Regional airports and smaller airlines have led this opening up of access to new routes due to the disruption of traditional 'hub and spoke' routes to their capitals and the withdrawal of major airlines from some regional routes.

In seeking to incentivise the pioneering of new domestic routes between by de-risking some of the start-up costs for new routes, the AAA proposes the Federal Government develop a 'Domestic Air Route Market Development Grant' program that helps to spread the initial expense of pioneering new domestic air routes, particularly on seasonal or otherwise partially commercial routes which serve high-value regional tourism destinations.

Reducing the Regulatory Burden: Safe, secure and environmentally sustainable aviation

Secure aviation – Are there approaches that governments could pursue to improve aviation security governance and consultation processes?

Major Airports

Since the Federal Government's announcement of the new airport security screening requirements in May 2018, the AAA has consulted closely with its members to understand the key infrastructure and operational challenges facing the industry in order to meet the new security requirements. The findings of this ongoing consultation revealed an unprecedented cost impost on industry and the most complex and operationally challenging security upgrade process the industry has ever had to implement. All of this was done by the Federal Government with minimal consultation with the airport sector.

In late 2018, the AAA surveyed the 14 Tier One major airports which will be required to implement body scanners, as well as next generation CT x-ray equipment for both the cabin and checked baggage screening process. Based on the analysis undertaken by these airports, it is expected that the capital expenditure alone required to purchase the equipment and make the necessary infrastructure changes to be approximately \$1.74 billion.

By imposing a two-and-a-half-year implementation timeframe on all airports across the country to fully transition to the new security screening requirements, the Federal Government has applied significant upward pressure on the costs incurred by industry. The aggressive timeframes required industry to mobilise significant resources in a short period of time to undertake substantial infrastructure changes. In some instances, this required airports to design, build and fund construction of temporary, duplicated security screening infrastructure to maintain an operational airport while existing systems were modified.

These issues were compounded by advice from the Department of Home Affairs (Home Affairs) on the new facilities and infrastructure requirements for providing border services contained in its International Port Operators Guide (IPOG). Australia's international airports have had difficulty in implementing the requirements in the IPOG, with concerns of solutions being imposed without consultation, cost shifting from border agencies to airports and 'gold plated' specifications for interim and permanent border facilities increasing time and costs for projects at international airport terminals. More detailed discussion of issues surrounding the IPOG's implementation is at Attachment C.

Industry continues to seek a practical and pragmatic approach to the rollout of Government mandated security screening into the future. The discretion shown by Home Affairs in allowing some airports to defer the implementation of new screening infrastructure during the pandemic has been appreciated by airports, but has come too late for airports which made the transition pre-COVID. The AAA recommends the Federal Government engage in extensive and authentic consultation with airports before decisions are made, rather than imposing impractical and cost prohibitive solutions on the sector.

Security screening at regional airports

The regulatory cost of aviation security is ultimately borne by passengers through ticket prices along with other aviation sector participants such as general aviation operators. Home Affairs, as the Federal Government's regulator of aviation security must ensure the cost burden of regulation does not fall disproportionately on sectors of the industry least able to afford to bear the cost burden – regional airports.

Given the price-sensitive nature of the aviation industry and the importance of the industry's viability in supporting both national and local economies, it is imperative that the Government and industry continue to take an intelligence driven, risk-based, outcomes-focused approach to aviation security regulation. This approach recognises that not all airports are identical. Taking a more tailored approach to the implementation of security measures at regional airports is prudent, effective and efficient.

Regional airports manage a unique set of challenges in maintaining security in an affordable way. With fewer passengers to spread operating costs, as well as the added operating expenditures of maintaining dual-screening for aircraft that fall below the new government-mandated threshold, regional airports have forecast at least a 40% increase to their operational expenditure to maintain updated security screening regulations.

The AAA continues to advocate for the full government funding of all costs directly connected to the provision, implementation and maintenance of security screening equipment, as well as the associated operational expenses at regional airports. The scope of government funding in this scenario would include:

- Procurement of regulated security screening equipment;
- Maintenance of screening equipment;
- Costs of contracted security screening staff and;
- Replacement of life-expired security equipment.

The emerging challenge of airport 'health security'

COVID-19 has opened a new front in aviation security – namely that health has now moved into the security sphere. Australia's airports are ready and able to assist government in its task of re-opening the international borders to help bring Australians home and return the crucial international tourism and freight market.

Airports are working with government and trusted medical advisers on a plan to achieve this outcome, developing a set of 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 technology such as rapid testing, thermal temperature testing, contact tracing and antibody testing.

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 Commonwealth develops a fund to support the infrastructure and facilities costs of international airports to comply with any future mandate for aviation health security infrastructure. Should such a mandate come into effect, airports are willing to work with Home Affairs and the Department of Infrastructure, Transport, Regional Development and Communications (the Department) to co-design the right outcome which supports the health security of international travel.

'Dual mode' security screening at regional airports

It is the AAA's firm view that if a regional airport has an established security screening regime, then all passengers and baggage departing from all RPT and open charter services must be subjected to the same security screening regardless of aircraft size or seating capacity. Several regional airports across the country must currently manage a dual-mode security process where only some passengers in the same terminal are screened and others are not, simply depending on which aircraft they are boarding.

This situation forces some regional airports to accommodate these different services by establishing segregated security screening or terminal configurations depending on which operator's aircraft they board – even though in many instances both services will fly to the same capital city destination. Running this dual mode process has become even more difficult and costly with the recent introduction of a 40-seat trigger, as some regional airlines operate the same type of aircraft with multiple seating configurations (above and below 40 seats).

Despite ongoing requests from the AAA and industry, differential treatment of passengers and baggage at airports where the government determined screening is warranted for some services and not others went ahead. Once again, the AAA recommends the Federal Government engages in extensive and authentic consultation with industry before decisions are made, rather than imposing impractical and cost prohibitive solutions on the sector.

Security Screening Funding Model

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 that test. The 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 of providing screening and the actual costs, based on passenger numbers.

The AAA calculates this overhang for both domestic and international screening at approximately \$110 million during 2020. This overhang exists even after the provision of \$173 million in Federal Government assistance over FY 2019-20 and 2020-21 for domestic security screening rebates. This funding is due to expire by the end of 2020. No assistance has been provided for international screening, despite international passenger numbers falling by more than 98% during the pandemic and a requirement to keep international airports open to handle the greatly reduced inbound and outbound passenger and aircrew movements.

A 'new deal' on aviation security:

Airports cannot continue to subsidise the rest of the aviation industry by providing mandated aviation security services below cost. Under the existing funding model, there is a significant risk that as screening charges are reset for 2021, there will be significant increases in domestic security costs of almost 400% and increases in international screening costs of approximately 550%. This is an industry-wide problem that will filter down from airports to airlines and ultimately the travelling public through airfares.

The most pragmatic and immediate solution for this industry-wide problem is for the Federal Government to fully cover the costs of domestic and international aviation security screening throughout CY 2021. AAA modelling estimates that reimbursing the unrecovered costs from CY 2020 and setting out funding to cover the shortfalls in mandated charges in 2021 would cost approximately \$282 million, or 19% of the previously committed support to the aviation industry.

This will allow airports to recover actual costs incurred in the delivery of security services without potential to further increase losses. It will also remove a potentially significant cost barrier to a recovery in air traffic volumes for business and leisure travel. It is believed that this relatively short-term assistance will begin tapering of its own accord once passenger volume comes back into the aviation industry.

In the longer term, the AAA recommends during the five-year strategy period, the cost recovery model of security screening be re-examined to make it less vulnerable to revenue shocks and smooth out some of the differences in domestic screening costs between major capital city airports and regional airports. The AAA supports a model which fully covers the cost of security screening at all airports through a standard charge added to the base airfare on domestic or international airline tickets. As part of this model, the AAA also recommends the Federal Government runs a 'revenue clearing house' that efficiently collects screening charges from airlines and directly reimburses all airports for their screening costs.

Environmentally sustainable aviation – Are there options to improve environmental outcomes while maintaining an efficient and effective aviation sector?

Most of the environmental impact from aviation in Australia and globally is due to the emissions generated from aircraft burning aviation fuel. It is calculated that one environmental effect of the pandemic in 2020 was to reduce the aviation industry's fuel consumption and emissions intensity to more than half of pre-pandemic levels. This short-term reduction in emissions will start ratcheting up as a recovery in the industry gets under way. Despite this temporary reduction, the aviation industry will need to continue reducing emissions intensity to meet national and international emissions reduction targets and ensure its future social licence to operate.

The environmental impacts of Australia's aviation industry are dealt with by membership of global organisations such as the International Civil Aviation Organisation (ICAO) and adherence to international protocols such as its State Action Plan on emissions reduction. Carbon emissions from international aviation will hit a crunch point this year if the goal of capping net emissions at 2019-20 levels through ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) plan remains in effect. Setting 2019-20 as the baseline year will require a significant future contraction of domestic and international aviation to converge with emissions reduction targets under CORSIA. As this threatens the economic viability of the Australian and global aviation industry, Australia must work through ICAO to ensure a different year is selected as a benchmark for emissions reduction, either pre-pandemic or post-pandemic to ensure reasonable and practical targets for emissions reduction are set.

While Australia has less influence over the course of international aviation, environmental policy settings for domestic aviation on energy, water and infrastructure are set by the Federal Government and subject to national-level policies. The following sections outline the role airports can play in reducing the emissions intensity of Australia's aviation industry and how the Federal Government can work with the airport sector to achieve good environmental outcomes.

Energy & water efficient airports

Airports have significant opportunities available to improve environmental outcomes for the aviation industry by their ability to reduce consumption of and more efficiently use energy and water resources. Areas where Australian airports have improved and can continue to improve their resource efficiency include:

- Renewable energy generation and storage – Major Australian airports have already begun to invest in large scale solar energy 'farms' to supply much of their energy needs, including Melbourne, Brisbane, Adelaide, Darwin and Karratha. Canberra Airport has a gas-boostered trigeneration plant, re-using excess heat for heating and cooling air and water. These

measures help to significantly offset airport energy use from national and local grids and reduce operating costs.

- Water recycling – Recycled water is used for a range of non-potable purposes at Adelaide and Sydney airports. Adelaide Airport makes innovative use of its recycled water to irrigate the runway surrounds, reducing heat effects on hot days to reduce fuel consumption and increase take-off maximum loads for aircraft.
- LED lighting (facilities & airfields) – The development of powerful light-emitting diode (LED) lamps has offered great benefits to airports. When used for airfield lighting, LED lights provide lower energy usage, better colour rendition and colour match. LED lights are more efficient, providing better service over a longer life span with lower maintenance requirements. Many federally-funded airfield upgrades involve LED light installation.
- Fixed Electrical Ground Power and Air (FEGPA) systems – FEGPA systems reduce aircraft idle time at airports, the burning of jet fuel and aircraft noise by supplying them with power and air conditioning to keep essential systems working and passenger cabins cool without the aircraft's auxiliary power unit or engines running. Sydney Airport has progressively added FEGPA systems to new or upgraded aerobridges since the mid-2010s.

There are still significant opportunities available for Australia's airports to improve their energy and water efficiency. Although airports have different capabilities to self-fund these upgrades, existing and future incentives from all levels of Australian governments should assist airports in this task.

Sustainable Aviation Fuels (SAF)

Australia's most recent (2017) State Action Plan references the use of SAF as one pathway to aviation emissions reduction. In this case, SAF involves a biofuel/jet fuel blend. Given jet fuel is the largest contributor to aviation industry emissions both domestically and internationally, this is an important initiative for emissions reduction. In 2012, Qantas trialled biofuels domestically in 2012 and internationally in 2018; while Virgin Australia conducted its own trials domestically and internationally in 2018-19. Brisbane Airport has been heavily involved in the Virgin Australia trial in supply of fuel through its jet fuel distribution network.

To further incentivise market-driven development of a local SAF production and distribution industry, the Federal Government needs to put in place policies and industry support measures. A significant concern is current international measures through ICAO agreements such as CORSIA and national measures such as the Safeguard Mechanism are not sufficient to develop an SAF industry in Australia. The Commonwealth should help incentivise the development of a national SAF capability through a range of initiatives including:

- Grants or interest free loans to alleviate capital cost for SAF production and distribution;
- Excise exemption on SAF;
- Mandate a blend percentage of SAF in Jet A1 and;
- Introduce subsidy on SAF to match incentive on road transport fuels.

By showing visible and credible level of support for an SAF industry in Australia, the Federal Government can create new industries and jobs and reduce risks to national fuel security and supply through creation of a domestic aviation fuel supply chain as part of its broader energy security policies.

PFAS

As a first principles issue, the Federal Government must acknowledge its responsibility for the creation of PFAS pollution at Federally Leased Airports and its additional responsibility to reduce such pollution at the source. To take action on its responsibilities in regards to PFAS, the Federal Government should provide funding for to assist Federally Leased Airports with PFAS remediation at the on-airport sources of pollution.

The Issues Paper appears to position airport operators and users at the centre of managing the legacy effects of PFAS use on airports, with the Federal, state and territory governments and the community on the peripheries. There are significant concerns in the airport sector that this

represents an effort by the Federal Government to transfer its responsibilities as the legacy PFAS polluter onto airports.

The AAA is also concerned with the way in which the Federal Government appears to be heading regarding PFAS management and mitigation at airports. Two areas of concern include:

- Ensuring Airservices Australia is appropriately funded to investigate, contain and remediate PFAS pollution in accordance with the PFAS NEMP, and;
- Increased costs and delays for airports from the onerous application of the PFAS NEMP when undertaking commercial developments and infrastructure upgrades/expansions.

Reducing the Regulatory Burden & greater local decision making: Federally-leased airports

Are there options to improve the regulation of Federally-leased airports, that balance the benefits of local level regulation and management with strategic national level interests?

Airports will strongly resist moves to devolve responsibility for FLAs from the Commonwealth to subordinate levels of government. The Constitution embeds the power to regulate aviation to the Commonwealth and not state/territory or local government. As airports are nationally important assets, devolution to lower levels of government, would increase the likelihood of restrictive regulation being imposed on airports due to local political issues.

One key option to reduce the regulatory burden would be to allow Federally-leased airports (FLAs) to exercise their option to extend their leases now if they wish. Exercising the 50-year option is viewed as critical for airports to provide a level of certainty for property investments with long payback times (such as hotels or commercial developments). This would represent a no-cost action for the Federal Government, requiring only ministerial approval.

Another option is for the Department to revisit its interpretation of the Federal Court decision on Ex-Gratia payments in lieu of Land Tax (EGLT). Airports view the proposed EGLT model as an anti-competitive measure that makes on-airport changes of land use and non-aeronautical property development more expensive than similar off-airport activities. This change does not meet the policy intent of competitive neutrality sought by the National Competition Commission at the time of airport privatisation.

The AAA has argued against the proposed EGLT regimes in their response to the Department's EGLT position paper, replacing it with a simple variation of an airport's headlease. The AAA's response to the Department's EGLT position paper is given at [Attachment D](#).

Similarly, the ex-gratia council rates system has not maintained the principles of competitive neutrality. On-airport commercial operations must pay both council rates as well as all the other services that a council would ordinarily provide off-airport but does not provide on-airport.

Further regulatory changes which could improve the functioning of the *Airports Act 1996*, the Airport Building regulations and the *Environmental Protection and Biodiversity Conservation Act 1999* in relation to master planning and development planning and control at FLAs is provided in [Attachment E](#) and [Attachment F](#).

Greater local decision making: Local government owned aerodromes – Are there options to improve how ALOP aerodromes are regulated?

Capacity building and governance first

The recent Productivity Commission (PC) inquiry into the Economic Regulation of Airports found regional airports did not require economic regulation of their market power. The same report also found many local government-owned regional airports would benefit from capacity building to improve governance and asset management frameworks to better manage the significant aviation infrastructure owned by local government.

The AAA agrees broadly with the PC's findings and that capacity building in airport governance and asset management skills for local government should be a priority for federal, state and territory governments. Doing this first, rather than pursuing a regulation/deregulation agenda will ensure a strong regional network of airports in a state of good repair are available into the future for the full spectrum of aviation uses.

There are also opportunities to improve the regulation of aviation security at regional airports, with the view of the AAA noted previously in the section on security. A recent example is found in the changes to the aviation security regime by Home Affairs. This has allowed some smaller, low volume RPT airports in outer regional and remote Australia to opt out of the new regime, reducing the infrastructure, staffing and compliance requirements at these airports.

Are there other ways the Commonwealth could support state, territory and local governments in their operation and management of regional and local aerodromes?

Integrated government support for regional aviation

An integrated approach from government bringing airports and airlines together to negotiate and deliver a quality core RPT network built around a core airport network would reduce the time and money costs of transport between capital cities and regional centres. It would better help federal, state and local governments to achieve decentralisation goals by increasing accessibility to intrastate, national and international aviation networks, providing an additional impetus for firms and households to relocate or invest in regional centres.

Encourage regional airports to specialise

A planned network of airports serving a core RPT network (similar in scope to what was funded during the pandemic) would be better able to attract financial support from all levels of government. It would also allow airports to specialise in key sectors of aviation such as aeromedical aviation, flying training, military aviation, primary industries and emergency services. For example, many airports in regional cities host Royal Flying Doctor Service (RFDS) bases, with significant recent investment by RFDS at airports such as Dubbo and Bundaberg. Similarly, regional airports off main air corridors provide good training environments for flight training schools to develop the next generation of domestic and overseas student pilots.

The recent Royal Commission into National Natural Disaster Arrangements recommended Australia develop a national aerial firefighting capability with a fleet of fixed wing and rotary wing tankers and support aircraft. This fleet would need both permanent bases and appropriate field bases when deployed on firefighting duties. Some regional airports reported their facilities found it difficult to cope with the increased firefighting air traffic during the 2019-20 'Black Summer' fires. Upgrading regional airports in high bushfire risk areas to permanently or temporarily based firefighting aircraft would be a good use of aviation infrastructure upgrade funds for public safety.

Targeted assistance: Funding of regional airports

Do current Government airport grants target key priorities for regional airports?

Current grant programs are mostly fit for purpose

The current set of funding programs generally target key priorities for regional airports, particularly at the significant number of airports where revenues from RPT and GA traffic do not cover their

total costs. In this situation, Federal Government grant funding programs targeting aviation safety and accessibility (Regional Airports Program [RAP], Regional Airstrip Upgrade Program [RAUP]), or offsetting capital costs in upgrading aviation security infrastructure (Regional Airport Security Screening Fund [RASSF], Regional Airport Security Infrastructure Program [RASIP]) support key priorities for Federal Government aviation policies across regional and remote Australia.

Both the RAP and RAUP programs have reached the end of their current funding cycles, with funds exhausted after RAP round 2 and RAUP round 8 are concluded. The RASSF and RASIP programs were one-off programs which fully funded regional airports to manage the transition to the new aviation security regime. The AAA recommends refreshing the funding for RAP (\$100 million) and RAUP (\$40 million) over four years for the 2021-22 Federal Budget. It also recommends maintaining the current RAP criteria where projects less than \$300,000 are fully-funded by the Federal Government. This will support regional and remote airports to upgrade safety-critical infrastructure.

The 'Missing Middle' of regional airports

Australia's 'missing middle' airports consist of approximately 17 mid-tier RPT airports with annual pre-pandemic passenger numbers greater than 250,000 and less than 1.5 million. These airports have a mixture of ownership and management:

- Federally-leased and privately operated (Alice Springs, Launceston, Townsville);
- Local government-owned and operated (Ballina, Coffs Harbour, Kalgoorlie, Karratha, Newcastle, Newman, Proserpine, Rockhampton);
- Local government-owned and privately operated (Port Hedland, Sunshine Coast);
- Indigenous community-owned and operated (Uluru/Ayers Rock) and;
- Privately-owned (Broome, Hamilton Island, Mackay).

Current grant programs are limited largely to smaller regional and remote airports at the 'thin' outer ends of the national aviation network. This ensures airports are not left behind by changing standards. The AAA has identified a group of airports in the 'missing middle' on the national network that are too large (in terms of passenger numbers) or not sufficiently remote to qualify for existing programs, but not large enough in terms of revenues and passenger volumes to be able to either fund projects through their own means or source the 'patient' capital required for long-term investment with long-term rates of return.

The situation of the 'missing middle' airports illustrates how the Federal Government's current funding settings fails to unlock the significant economic potential of mid-tier regional airports. The AAA strongly recommends the Federal Government provides for \$200 million over four years in the 2021-22 Federal Budget for a 'Mid-Tier Airports Program' (MTAP) of concessional loans. This will have a significant economic impact in parts of regional Australia which host 'missing middle' mid-tier airports.

These airports have in common their locations in dynamic, often fast-growing regions with large non-capital city population centres and well populated hinterlands. These regions are also built around a diverse range of economic activities including mining, defence, agriculture and minerals processing. In addition, many of these areas are also high value tourist regions, featuring renowned food and wine, along with nationally and internationally significant natural and cultural history. Many act as 'gateway' nodes in the national air network, serving outer regional and remote communities and are linked to one or more major capital city airports.

Due to a lack of dedicated and reliable funding sources, mid-tier regional airports are delaying renewals and upgrades which would bring more diverse and sustainable aviation activity. Mid-tier airports are also forced to 'hunt' for grant funding to undertake upgrades through multiple Federal Government funding streams. Some airports (Alice Springs, Townsville) have previously co-funded projects through the Northern Australia Infrastructure Fund (NAIF). Ballina and Rockhampton airports co-funded their runway upgrades through the Building Better Regions Fund (BBRF). Other, one-off sources of project funding saw other tiers of government pay for airport upgrades.

The runway expansion at Sunshine Coast airport was a condition of the Sunshine Coast Council's 99-year lease of the airport to a private operator in 2017. Launceston Airport was recently able to co-fund expansion of its terminal with the Tasmanian Government in its 2020-21 State Budget.

Many of the 'missing middle' airports have significant shovel-ready projects which can be brought forward through a new, dedicated Federal Government grant funding program. For example, Newcastle Airport have a once in a generation opportunity to upgrade their runway to Code E standard, timed to coincide with and leverage off a programmed runway upgrading by Defence in mid-2021. Sunshine Coast Airport has significant passenger and air freight expansion plans ready to proceed, while Rockhampton Airport's master plan envisions commencement on new fly-in-fly-out (FIFO) and Defence facilities by 2022. The main stumbling block to realising these plans is access to patient capital which the Federal Government is best situated to provide through concessional, no interest/low interest loans.

Targeted assistance: Aviation skills and workforce development

Are there options to improve the longer-term development and/or retention of aviation skills?

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. 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.

Form an 'Airport Reserve'

Once the post-pandemic recovery gets under way, there will be a need to bring 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 an 'Airport Reserve', who could be relatively quickly re-qualified or trained and return to fill roles at airports. To fully realise the 'Airport Reserve' concept, the AAA is asking for \$0.6 M over four years to develop, implement and manage this program. The concept is similar to the Australian Health Practitioners Registration Agency (AHPRA), which has established a short-term 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. A system similar to AHPRA's would allow key airport staff such as security screeners, Airfield Reporting Officers, Workplace Safety Officers and airfield technical inspectors.

RTO accreditation for the AAA

The AAA views capability and skills development for a workforce with relatively niche qualifications. It is also clear to the AAA that education pathways for the airport sector are relatively under-developed in comparison to other parts of the aviation industry. There is also a need for the AAA to have a better understanding of the composition of the airport sector labour force to better deliver education and training to this workforce.

To achieve these goals, the AAA intends to seek accreditation as a Registered Training Organisation (RTO). Accreditation would allow the AAA to develop training pathways and design and delivery training packages linked to the skills needs of the sector. RTO accreditation would also allow the AAA to work more closely with the National Skills Council, Australian Industry Skills Council to develop education pathways for the airport sector linked to AQF-aligned and accredited certificate and diploma-level qualifications. The close linkages between the AAA and its airport and corporate members allow for design and delivery of accredited skills packages targeted at airport workers. The AAA is asking for \$2.4 million over four years to achieve RTO accreditation, develop, design and deliver training packages to attract and retain skilled workers to the airport sector.

Targeted assistance: A sustainable and equitable funding base for CASA

Are there options to rationalise the number of fees and methods of charging the aviation sector?

The Civil Aviation Safety Authority (CASA) receives funding from three major sources: a hypothecated 3.556 cents per litre excise on aviation fuel consumed by all domestic aircraft (all of which is provided to CASA); a Federal Government annual appropriation; and regulatory services fees.

The pandemic has already shown the unsustainability of using hypothecated fuel excise and regulatory service fees as funding sources for CASA, as the collapse in fuel demand and government policies to waive regulatory services fees has left a significant shortfall in cost recovery, requiring government to top up lost revenue. In some respects, it has given a vision of the future funding constraints facing CASA, as airlines retire older, less fuel efficient aircraft and as the industry moves to more sustainable aviation fuels and alternatives to traditional aviation fuels, CASA's revenues from fuel excise hypothecation will continue to reduce.

CASA urgently needs to find different funding sources to continue doing its vital work as the Australian air safety regulator. Short-term options to assist CASA might include a decision to index fuel excise on aviation fuel, just as the decision to reintroduce fuel excise on petrol was taken in the 2014-15 Federal Budget. In the longer term, shifting an indexed fuel excise to sustainable or alternative aviation fuels is one option that is probably less sustainable than the Commonwealth providing more through annual appropriations. In any case, the preferred outcome for industry is ensuring CASA's revenues do not increasingly rely on direct cost recovery from industry through user fees or other options that increase the regulatory burden.