Australian Airports Association

2020–21 Federal Budget Submission

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Introduction

The Australian Airports Association (AAA) is the national voice for Australian airports and represents the interests of more than 350 airports and aerodromes across Australia, in addition to more than 160 corporate members which supply products and services to airports. The AAA's membership ranges from international gateway airports to regional airports and remote airstrips.

Prior to the pandemic, the nation's airport sector was responsible for maintaining more than 206,000 Australian jobs, including 8700 directly employed by airports.

In 2017, Australian airports added $34.6 billion (around 2%) to Australia's GDP, made up of $4.9 billion in direct activity from core airport business plus an additional $29.7 billion of indirect or value-added business.

Executive Summary

Airports are an essential service to the community. Australia needs a sustainable aviation network, but there is a growing risk airport will cut services and jobs to save costs, losing skills and for some airports reducing operating hours or closing runways and terminals.

Airports want to look to the future and be the open, safe and secure facilitators of domestic and international transport they know they can be. The AAA calls on the Australian Government to develop an aviation plan to restart the economy, aviation and tourism. The immediate focus must be on financial relief for government-mandated aviation services while also looking to recovery efforts. In recognising the critical nature of air travel to the Australian economy, the AAA has developed a $437 million Airport Relief and Recovery Plan (ARRP).

The Relief component is costed at $237 million and is targeted at the immediate needs of the airport sector at this time of low activity, consisting of:

- Maintaining the JobKeeper wage support program for key airport staff at already eligible airports for a further 6 months beyond the current expiry in March 2021 ($37 million),
- Extending JobKeeper to staff at currently ineligible regional airports from July 2020 to September 2021 ($33 million), and
- $167 million for operations support to keep the lights on in terminals and runways:
    - Direct payments to airports offsetting security screening costs for domestic ($93.2 million) and international ($56.9 million) passengers,
    - Funding for enhanced COVID-safe terminal cleaning regimes ($10.1 million) and
    - Providing additional airfield security at airports ($6.8 million).

The Recovery component, costed at $200 million prepares the airport sector for a post-pandemic comeback of aviation and tourism industries, reduces the cost base of airports in providing government-mandated aviation security screening and ensures our airports are safe, secure and ready for the return of air services from both domestic and international ports.

- Reimbursement of capital costs incurred by airports in rolling out the Australian Government-mandated security screening infrastructure ($50 million),
- Top up the Regional Airport Program fund to alter the current 50:50 co-contribution model to a 25:75 model ($50 million), and
- A new aeronautical infrastructure program targeted at mid-sized regional airports serving high-value tourism areas ($100 million).

During the Relief phase airports will continue to work closely with airlines to ensure health and safety risks for staff and passengers are managed across the aviation journey. However, better coordination and support at a national scale from all levels of government is required to rebuild passenger confidence safely and effectively in the aviation industry during the Recovery phase.

The AAA also proposes a sensible, proportionate regulatory reform program reducing the compliance burden on airports and bringing forward projects which contribute to an infrastructure-led recovery. It also urges the Australian Government to continue pursuing a consistent policy of reopening state and territory borders through the National Cabinet. The AAA also supports a staged and targeted reopening of international borders with 'safe lanes' or 'travel bubbles' that support key economic sectors such as agricultural workers, international tourists and students.

The Airport sector is in trouble

The COVID-19 pandemic has exposed existing fault lines across our economy and our society.

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

Passenger growth was already soft before the pandemic

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 domestic travel 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".

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The COVID-19 pandemic rapidly degraded Australia's aviation industry

The bushfire season overlapped the global spread of COVID-19, which rapidly degraded domestic and international passenger numbers through Australia's airports. Figure 1 compares passenger numbers at Australian airports between FY 18/19 and FY 19/20. From a peak of 14.25 million passengers in January 2020, numbers fell to 350,000 passengers in April. In June 2020, numbers slightly recovered to 828,000 passengers, well below the 12.6 million in June 2019.

Figure 2 shows the percentage change over the same period. In February 2020, passenger numbers declined by 6%, falling further in March (41%) before bottoming out in April-May after declining by 97%.

International aviation fell first and hardest, followed by domestic aviation

Flights between China and Australia halted in early February 2020, followed by flights between other Asian, European and American ports during the month. The decision by the Australian Government to close the borders in March saw Qantas and Virgin grounding their international fleets and a rapid decline in international passengers. Domestically, March also saw the scaling down by airlines of their domestic networks on both trunk and branch routes. In mid-April, Virgin Australia entered voluntary administration, triggering Australian Government intervention to guarantee a minimum national domestic air network.

Figures 3 and 4 shows the differing trajectories of the decline in international and domestic passenger numbers in 2020. International passenger numbers (around 26% of all passengers) fell faster than domestic numbers in February and March, before both segments bottomed out in April.

The effect of policies capping the numbers of international flights and passengers per flight is seen in the rapid decline of international passengers to 98% below FY18/19 levels) from April to June.

Figure 1

Passenger numbers at Australian airports FY18/19 and FY 19/20

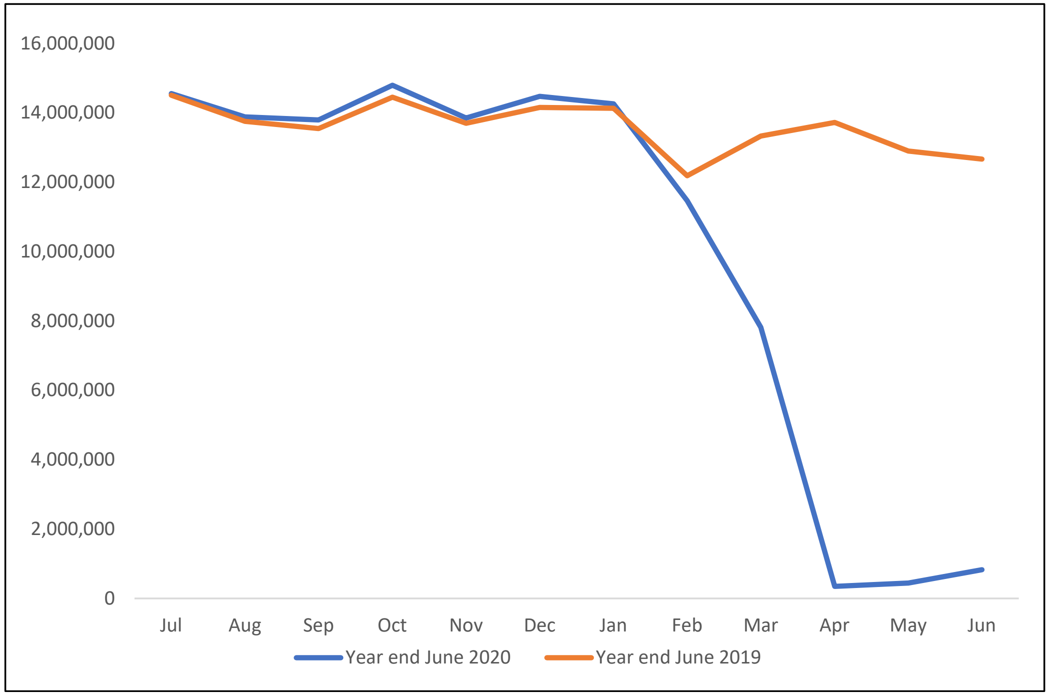

Figure 2

Percentage change in passenger numbers at Australian airports FY18/19 and FY 19/20

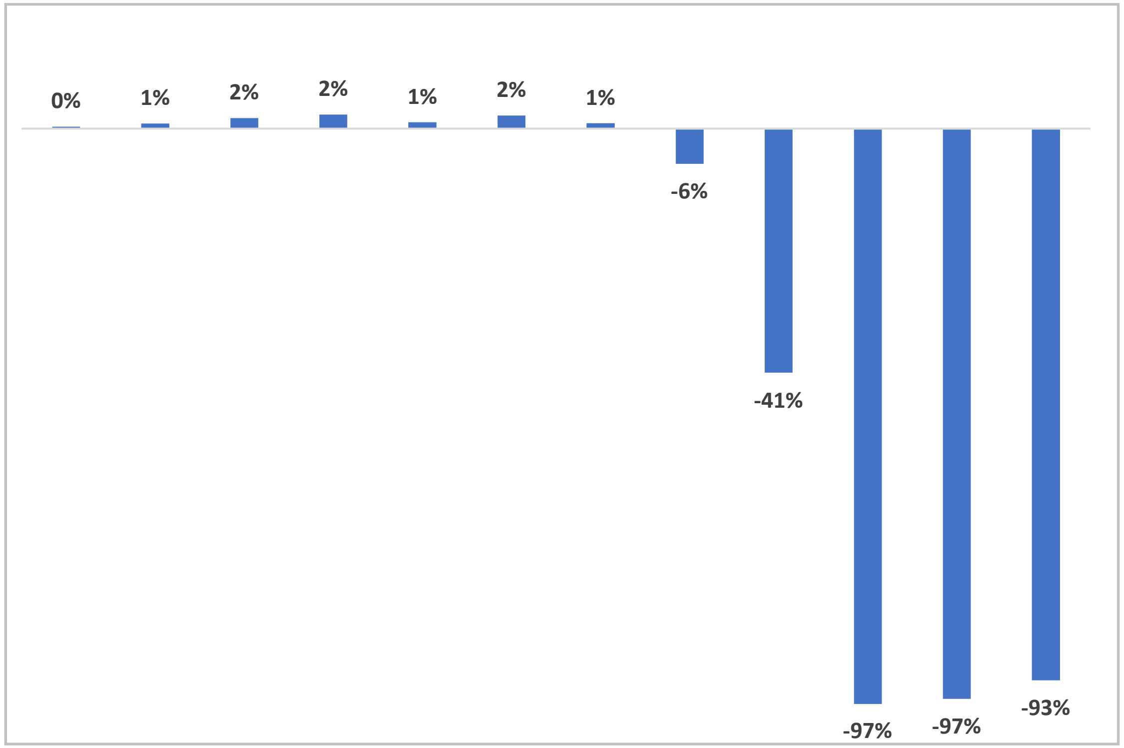

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Figure 3

Change in domestic and international passenger numbers at Australian airports FY 18/19 and FY 19/20

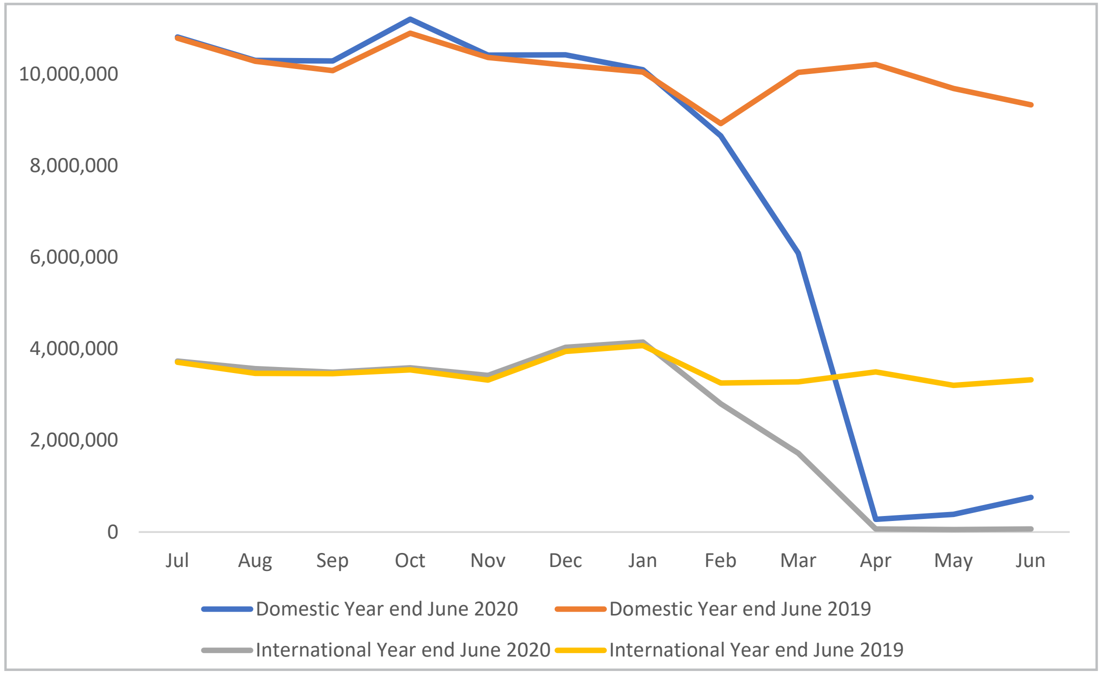
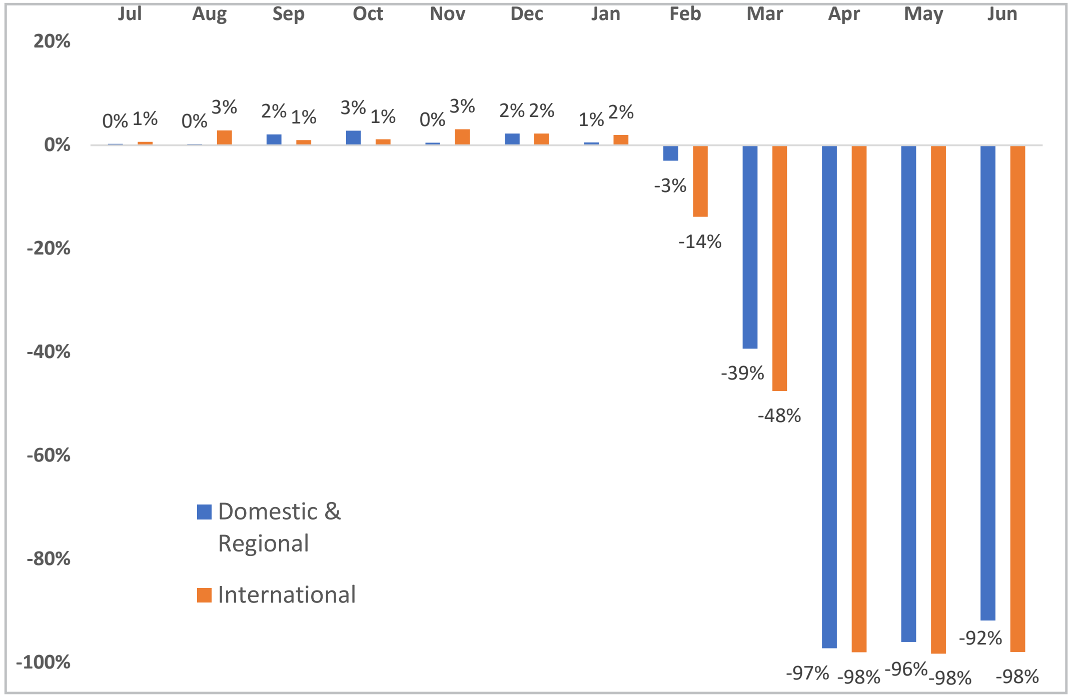


Figure 4

Percentage change in domestic and international passenger numbers at Australian airports FY18/19 and FY 19/20



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Australia's airport sector is struggling to keep the lights on

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. Data from two AAA surveys of its airport members in April and July 2020 indicate Australia's airports were collectively losing around $300 million a month in foregone revenues:

- Aeronautical revenues (from aviation operations) fell by over $455 million (over $150 million a month) between February and April 2020, a drop of around 75% compared to the same period in 2019.
- Non-aeronautical revenues (commercial and retail rents and other income) fell by around $438 million (around $145 million a month) over the same period.

AAA data concludes at least nine per cent of directly-employed airport staff have lost their jobs with a further 11 per cent placed on reduced hours and reduced pay or asked to use up leave entitlements.

The broader aviation eco-system figures will be much higher. Reductions in jobs and core airport activities also affect airport related services (food and beverage, retail, hospitality), capital works and construction. All of this means the reduced wages and salaries paid to staff, contractors and suppliers will ripple through the wider economy, particularly in regional communities.

Providing an essential service during the pandemic

By keeping domestic and international air routes open for passenger and freight during the crisis, Australia's airport sector provided an essential public service, repatriating Australians from overseas, keeping a minimum domestic air network functioning and ensuring air freight stayed moving. This service came at a significant cost, at a time when almost no revenue was coming in.

The costs of keeping the lights on in terminals and on runways remain fixed regardless of the activity levels, particularly providing security and other services for the international arrivals and departures which maintain Australia's air bridge to the world. Costs were driven up from decisions made by National Cabinet, setting caps on numbers for international arrivals and compounded by decisions from the jurisdictions to cap daily and weekly arrival numbers at extremely low levels.

Similarly, the need for airports to provide security patrols to protect grounded airliners in long-term storage is another operating cost which has increased, particularly as the pandemic has not lessened the aviation security threat. The AAA recommends assisting airports by providing additional funding of $6.8 million of funding to augment physical security at airports.

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

Government policies directly affect airport finances

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

COVID-19 countermeasures increase airport operating costs

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

Even at low levels of passenger throughput, increased cleaning regimes, physical distancing in waiting areas, Perspex 'sneeze guards' at counters, temperature checking equipment and additional lanes to promote physical distancing in terminals have already increased airport operating costs.

In the longer term, some of these pandemic practices may become mandated as standard practice for a 'new normal' a viation environment, requiring major capital investment to increase floorspace or reconfigure terminals with their consequent effects on operating costs. If this is the case, airports will have to shoulder these increased costs, ultimately passing them on to airport users. Until the situation regarding hygiene and infection control countermeasures becomes clear, the AAA proposes the Australian Government supports airports to provide a safe travel environment by contributing $10.1 million to augmented cleaning regimes.

The financial effects of new security screening models

Government policies in play before the pandemic will continue to affect airport finances, particularly the Australian Government's enhancements to security screening and border protection infrastructure and its efforts to pass these costs through to airports.

Changes to aviation security requirements announced in May 2018 mandated the installation of advanced body scanners and other security screening equipment at major and regional airports. Many major airports have already purchased and installed the mandated equipment only to find a lack of passenger numbers to offset the costs of operations. Although Australian Government assistance is available to regional airports for capital works, there only limited support for the increased operating costs. Increased screening costs will be passed through to passengers through airfares and further reduce the accessibility of air travel to regional communities.

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

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

The AAA recommends an additional $50 million in funding to support implementation of the new security screening and border protection model, particularly the capital costs of procuring and installing new security equipment. In addition, pausing the implementation of the new model for screening and border protection until the aviation industry finds a level of normality and an equitable cost and benefit sharing arrangement is worked out is recommended.

JobKeeper provides essential assistance to airports

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

The scheduled expiry of JobKeeper in March 2021 will mean key airport staff (both directly employed and contractors) and their essential skills in airport management and operations would be laid off. Re-establishing the skills base and the high costs of training and accrediting new contractors (or requalifying contractors with expired qualifications) would be a significant cost imposition on the airport sector. This would act as a brake on the sector's eventual recovery ahead of the return of domestic aviation and a possible restart of international aviation in 2021. The AAA recommends a six-month extension of JobKeeper to retain key airport staff, costed at $37 million.

JobKeeper exclusions disproportionally affect regional and remote airports

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

The lack of access to income support for staff at most council-owned regional airports is a significant issue for airports in regional Australia where these airports often generate significant employment and economic activity. The AAA's pre-pandemic figures show that regional airports directly employed over 1700 full-time workers and indirectly supported another 2750 jobs. As part of a broader package of assistance to the airport sector, the AAA proposes the Australian Government includes council-owned airports eligible for JobKeeper from 1 July 2020 out to the end of September 2021 at an estimated cost of $33 million.

Australian Government support could better help airports

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

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

The package provides rebates and waivers of Australian Government charges including aviation fuel excise, Airservices Australia and CASA charges for domestic air operations and domestic aviation security screening charges. Parts of the aviation industry have criticised the package as providing a significant amount (estimated at $550 million) as an effective funding top-up to Airservices Australia and CASA to offset lost revenues. The AAA has identified the following areas where the Australian Government could directly assist airports by reimbursing them for their largest, government mandated fixed cost expenses.

Domestic aviation security screening charges rebate

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

The design of the screening charges rebate means DITRDC pays the rebate to airlines, who pass it back to airports. There has been evidence provided to the AAA that some airlines have delayed payments to airports. While the AAA supports the rebate, its preference is for the DITRDC to directly reimburse airports for security costs, or alternatively, have a mechanism to ensure rebates are promptly remitted to airports by airlines. The AAA has calculated that a program to directly rebate airports for domestic security screening costs would cost up to $93.2 million for FY2020-21 depending on passenger numbers.

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International security screening is not rebated

International airports provide an essential service to Australia during the pandemic. They are experiencing significant difficulties in maintaining the high fixed costs of running international security screening systems despite low volumes of flights and passengers.

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

The AAA is advocating for the $42 million in outstanding international screening costs is rebated from the Australian overnment's existing aviation support package. It also proposes additional funding of up to $56.9 million to cover the high fixed costs of international security screening in FY 2020-21. This would remove another cost pressure facing airports and support a potential restart of international air travel in 2021.

Funding for infrastructure upgrades

The AAA welcomes the recent announcement by the Australian Government of the first round of projects funded from the 4-year, $100 million Regional Airports Program (RAP).

The RAP first announced in the 2019-20 Federal Budget was the culmination of a three-year effort from the AAA to secure dedicated funding for regional airports not classified as remote. The RAP relieves the burden on regional councils to fund essential airport maintenance and upgrades and helps close the $170 million infrastructure deficit at regional airports identified by the AAA in 2016.

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

Securing funding for the first round of successful RAP projects required on local governments to provide matching 50:50 funding. In the current environment where councils are under significant financial stress, some airports report they may be unable to proceed with their RAP proposals as they cannot meet the 50% co-contribution. To manage this, the AAA recommends that the Australian Government lowers the local government co-funding requirement for future rounds of RAP to a 25:75 ratio. The AAA also proposes the Australian Government 'top up' the RAP funding by a further $50 million to ensure the overall value of investment in productive airport infrastructure in regional Australia is not diluted.

The AAA is also of the view that a similar program could usefully be extended to 'middle-sized' regional airports with more than 250,000 passengers a year but less than 2 million passengers a year. These 'missing middle' airports are ineligible for RAP funds but have critical needs for upgraded and updated aeronautical infrastructure. These airports, including Ballina, Broome, Hamilton Island, Launceston, Newcastle, Sunshine Coast and Townsville serve high-value tourism locations that require updated infrastructure to be ready for the recovery of international and domestic tourism. An investment of $100 million in a 'missing middle' airport infrastructure upgrade program would provide important stimulus for communities and businesses in regional Australia.

Other Government support for airports

Another area where the Australian Government could assist the airport sector is in minor amendments to the regulatory regime governing airports. These amendments would enable airports to undertake their core business with a reduced regulatory burden for the duration of the pandemic and through the recovery period until a new equilibrium for aviation is found. These sensible and proportionate regulatory changes would reduce the compliance burden on airports and bring forward more airport infrastructure upgrading projects so the airport sector can support the Australian Government's direction for an infrastructure-led recovery.

Airports Act 1996

Under s. 89 (8) of the Airports Act, the Minister may determine by legislative instrument a threshold amount to trigger drafting of a Major Development Plan (MDP) for on-airport projects such as runways, taxiways, buildings and roads. There are significant time and money costs for airports in developing MDPs. The AAA recommends the threshold amount for projects to trigger an MDP be lifted from the current $25 million to $50 million.

Environment Protection and Biodiversity Conservation Act 1999

In the AAA's recent submission to the Independent Review of the EPBC Act it concluded better referral mechanisms are needed between the Airport Act and EPBC Act to reduce duplication of assessment processes. An example provided by a major airport in the AAA's submission outlined how a draft MDP, already publicly exhibited and assessed by the Infrastructure Minister under the Airports Act was referred to the Environment Minister under s. 160 of the EPBC Act. This meant repeating the exhibition and assessment process. The duplicated evaluation processes ran in sequence rather than in parallel, imposing time and money costs for airports and increased project delivery risks.

Environmental approval processes under the EPBC Act are also complex and challenging for regional airports. These processes have high impacts on Council resources, often for relatively small projects. AAA analysis of airport-related approvals on the Department of Agriculture, Water and Environment (DAWE) website showed EPBC Act assessments of minor works proposals at regional airports often require the same level of documentation and resourcing as a major airport MDP. The AAA's view is the complexity and scale of EPBC Act approval processes should be proportionate to the scale of environmental disturbance. Where small projects create relatively low levels of disturbance on airport land, the AAA believes approval processes could be streamlined.

Airport oversight regime

In 2019, the airport sector emerged from a 12-month inquiry into its economic regulation by the Productivity Commission (PC). The PC inquiry found the major airports monitored by the Australian Competition and Consumer Commission (ACCC) had not systematically exercised their market power in a range of areas, with the current regulatory approach remaining fit for purpose. The inquiry also recommended the Australian Government should continue the practice of five yearly Productivity Commission inquiries into the regulation of airports, to determine the effectiveness of the regulatory regime, a recommendation that was agreed to in principle.

The AAA welcomes the continued regulatory oversight of airports by the PC and ACCC. The travelling public and other interested parties all benefit from a well-regulated airport sector. However, COVID-19 has delivered the greatest shock to the aviation industry in the last 25 years, outdoing even 9/11 and the SARS crisis in the early 2000s. In this unprecedented situation, the AAA recommends 'stopping the clock' on the next five-yearly PC review on economic regulation of airports due in 2023 until the aviation industry and airport sector return to some level of normality.

Recommendations

The AAA has identified opportunities for the Australian Government to support the airport sector in the 2020-21 Budget through funding a $437 million Airport Relief and Recovery Plan (ARRP). The Relief component is costed at $237 million and is targeted at the immediate needs of the airport sector, which:

- Maintains the JobKeeper wage support program for already eligible airport staff for a further six months to September 2021 ($37 million),
- Extends JobKeeper to staff at currently ineligible regional airports from July 2020 to September 2021 ($33 million) and
- Offsets screening costs for domestic and international passengers ($150.1 million), boosts terminal cleaning regimes ($10.1 million) and augments airfield security ($6.8 million).

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The Recovery component is costed at up to $200 million and consists of the following initiatives:

- Reimbursing airports for capital costs incurred in rolling out new security screening infrastructure mandated by the Australian Government (up to $50 million),

- Topping up the current Regional Airport Program fund and alter the airport level of co-contribution from 50:50 to 25:75 ($50 million), and

- A new aeronautical infrastructure program targeted at mid-sized regional airports serving high-value tourism areas ($100 million).

The Recovery component of the ARRP would be a visible sign of support from the Australian Government to prepare the airport sector for a post-pandemic comeback of aviation and tourism industries, reducing the cost base of airports in providing aviation security screening and ensures airports are safe, secure and ready for the return of domestic and international air services.

The AAA recommends other changes to the Airport Act which raises the project cost threshold triggering preparation of a Major Development Plan from $25 million to $50 million and an EPBC Act mechanism that streamlines assessment processes for small-scale, low-impact airport projects. It also recommends the Australian Government continues negotiations for a consistent strategy to re-open interstate borders and work to restart international aviation through a re-opening of trans-Tasman air routes.

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