



# THE FUTURE OF AVIATION ISSUES PAPER – A SUBMISSION FROM BRISBANE AIRPORT CORPORATION (BAC)



**PART A: COVID 19 RESPONSE:**

***COVID OBJECTIVE 1: MAINTAINING ESSENTIAL AIR CONNECTIVITY – PROVIDING A MINIMUM DOMESTIC NETWORK***

BAC largely endorses the position of the Australian Airports Association (AAA) in its submission to this Paper that all three segments/tiers of the of the RPT network (commercially viable, partially commercially viable, and non-commercially viable) are important.

As Australia's most domestically connected Airport, and as an essential major gateway for large parts of regional Queensland, Brisbane Airport (BNE) is uniquely exposed to the variable commercial sustainability of Australia's regional network.

We maintain that regulatory oversight is necessary on the 'golden triangle' and other key routes to prevent anti-competitive behaviour and misuse of market power. We agree with the AAA's position that beyond these highly competitive and profitable commercial corridors, the Commonwealth's funding and regulatory focus should be on marginally and non-commercial routes to ensure regional communities and industries' needs are met.

***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?***

BAC appreciates the Commonwealth's efforts to support the aviation industry through the early months of the pandemic. Nonetheless, as is detailed in the AAA's submission, less than 10% 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.

The economy-wide support provided by the Commonwealth, such as JobKeeper, was welcome and BAC congratulates the Commonwealth on what has clearly been a key initiative in buttressing Australian businesses and individuals through this extraordinary period. However, the consequences of some aspects of the JobKeeper program, including the exclusion of foreign-owned firms has disproportionately impacted the aviation supply chain, most particularly ground handling, and security screening firms. This has meant that skilled workers 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.

As has been widely noted, the national economy's recovery from the pandemic, which will take many years, will be compromised if the long-term viability of the aviation industry is fragile.

BAC supports the AAA's detailed 'Aviation Relief and Recovery Program', particularly continued or extended wage subsidies for airport staff.

BAC also encourages ongoing Commonwealth efforts to implement a nationally consistent, co-ordinated approach to 'triggers' for border closures and opening. The current inconsistent interpretations of health advice have made an already difficult situation for the aviation industry even more complicated and difficult to manage.

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

In its 2020-21 Pre-Budget Submission, the AAA outlined a range of policies and steps the Commonwealth Government could take to support the viability of the airport sector.

The 'Relief component of its 'Airport Relief and Recovery Program' (ARRP) was costed at \$237 million and was targeted at meeting the immediate needs of the airport sector at this time of continued low activity.

Whilst the recent re-opening of some domestic borders is welcome news, airports will not return to pre-COVID passenger numbers, or profitability, for some time yet.

In addition to this, there remains the very serious significant financial impact on airports of unrecovered government-mandated charges stemming from the forced collapse of domestic and international aviation through government decisions to close borders. AAA data indicates that Australian airports are carrying approximately \$160 million in unrecovered government-mandated charges for 2020, including:

- shortfalls between predicted and actual per-passenger costs for domestic and international security screening
- increased levels of mandated airfield security due to the parking of grounded aircraft, and
- additional costs for undertaking enhanced COVID-safe terminal cleaning regimes.

Brisbane Airport Corporation, like all Australian airports, has carried these costs as good corporate citizens and as providers of essential transport infrastructure. We have also shouldered some of the burden these closures have delivered to our retail tenants and other partners through rent relief and other support packages.

As a recognition of the effort of airports to remain open during the crisis, reimbursing the unrecovered government costs from 2020 and setting out funding to cover the shortfalls in mandated charges through 2021 would cost approximately \$345 million. We urge government to consider this.

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

We concur with the AAA's suggestion that the best way to scale back this support is for a review of the RANS and DANS programs to taper support as passenger loadings recover. However, airports and the communities they serve must be protected from the contraction of routes and service consolidation by airlines as they reconfigure their operations. This is especially important where air services provide the main or only form of public transport between regional communities and capital cities.

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

The impact on BAC and its partners has been immense. Indeed, there has been no historic event of even remotely comparable impact. A decline in passenger numbers of more than 80% across both domestic and international for in excess of six months was inconceivable in the years prior to COVID.

The financial cost to our business has been in the many hundreds of millions of dollars. With pax numbers not forecast to return to FY19 levels until at least FY23, these losses will continue for many months yet.

We have cancelled all but the compliance and essential safety aspects of our forward aviation capital building program. The downturn in workload required us to re-structure our company and reduce our staff by around 25%.

We estimate that of the 24,000 people working on the Brisbane Airport site, more than 10,000 were stood down at some point during the crisis and many will never return. The AAA has estimated that based on data from two surveys of airports in April and August 2020, revenues, including rents and income from a range of aviation-related businesses were reduced by approximately \$104 million per month. By the end of 2020, accumulated losses from this part of the airport sector will be over \$1 billion.

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

Airports, including Brisbane, have already provided significant assistance to essential aviation-related businesses, such as rent reductions and waiving/deferring land tax and rates in line with State & Territory COVID-19 business support programs. We urge the Commonwealth and States and Territories to continue these programs. At a Commonwealth 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.

BAC endorses the AAA's call for a comprehensive industry policy for the aviation, airport and aerospace sectors that encompasses skills, operations, onshore manufacturing and repair coupled to government co-investment with industry 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 Commonwealth's IFAM program currently fully underwrites cargo services. Once travel 'bubbles' are opened between Australia and source markets, there is the opportunity for government to assist in fast-tracking recovery by providing some route development/recovery support to airlines in those markets of strategic visitor and freight importance.

## **PART B: FUTURE OF AVIATION:**

### **REDUCING THE REGULATORY BURDEN:**

#### **GENERAL AVIATION**

BAC supports the AAA's recommendation that the Commonwealth take a greater role in the safeguarding of airports from inappropriate off-airport developments which have the potential to compromise airport operations from both a safety and community impact perspective.

Whilst the AAA's comments relate specifically to safe-guarding operations at General Aviation airports, BAC is strongly of the view that this applies across the sector as a whole. Residential encroachment, building heights etc are all areas of concern for airports and the airspace operator, both of whom would, no doubt, appreciate firmer and clearer engagement by the Commonwealth with local authorities on these matters.

#### **DEMAND MANAGEMENT AT SYDNEY AIRPORT**

Demand management at Sydney airport, and indeed all movement caps at Sydney Airport, affect aviation around the country, not least at Brisbane Airport. BAC supports the review of Demand Management at Sydney and will provide feedback on its views in a submission to that Review.

#### **AIRSPACE MANAGEMENT**

Effective, considered, Airspace management is critical to the successful operation of Australia's airports and to the ability to grow operations to meet consumer demand.

While many in the community, and in government, see aircraft noise as an airport problem, it is, as the AAA describes in its submission, a tri-partite issue involving airports, airlines and the Commonwealth's airspace manager, Airservices Australia. Nonetheless, it is the airports that have the most to lose if community concerns are not adequately addressed in airspace design, daily air traffic management, and airline operations.

Having recently opened a new runway with the attendant new flight paths, BAC is acutely aware of the challenges of balancing the needs of all its stakeholders in such a project. It is essential that the Commonwealth supports these significant investments through ensuring its agencies enter into true partnerships with airport operators to deliver the best possible, balanced outcomes for all stakeholders, including the community.

BAC suggests that the Commonwealth require of all parties a formal agreement and commitment to working together in a structured manner to manage these issues. The current environment is, largely, dependent on the goodwill of individuals across all parties. Transparent information and knowledge sharing too, particularly in relation to aircraft and traffic management, and noise data, is essential to secure and maintain the trust of

communities that their interests are recognised in the way air space is designed and managed every day. A more structured requirement for partnership, information sharing, and delivery of stakeholder engagement would help ensure community support for aviation and airport growth.

### **AIRLINE ACCESS TO DOMESTIC AND INTERNATIONAL ROUTES**

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

Given the anticipated 're-set' in global aviation as a result of COVID-19 impacts on airlines and airports world-wide, BAC encourages the Commonwealth to remove unnecessary hurdles and restrictions to the entry of new carriers, and new capacity, into Australia. A more proactive approach (rather than responsive) to opening up capacity will also be essential to stimulating consumer demand.

### **SAFE, SECURE AND ENVIRONMENTALLY SUSTAINABLE AVIATION**

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

##### ***Security screening infrastructure upgrades at major airports***

The required enhancement of security screening equipment at Australia's airports, announced in 2018, is an entirely reasonable response to a significant threat concern by Government. Whilst BAC acknowledges the efforts of the Department of Home Affairs to understand the implications of this mandate on us, we do argue that the current system, which essentially outsources the cost and implementation responsibility to the private sector, is not the optimal response from Government to its own national security obligations.

COVID-19 has thrown into stark relief the difficulty of industry shouldering the cost burden of this Commonwealth requirement. Airports fund not only the acquisition of this equipment, but also the necessary structural changes which need to be made to many of the terminal buildings which house the equipment. In the case of Brisbane Airport, the cost of this upgrade will run into the hundreds of millions of dollars. The costs of operating the equipment are also initially borne by the airport.

In normal operating times airports can recover these costs in a reasonable time frame through mandated security charges to airlines based on a per passenger rate. In a period of significant passenger decline, the ability of the airport to recover these costs is severely impacted.

BAC is of the view that the Commonwealth should consider options to assist in the funding of these mandated upgrades, either through the provision of direct grants to airports, funded by a passenger levy or otherwise, funds already raised through the Passenger Movement Charge or otherwise.

Whilst BAC is committed to meet the Commonwealth's deadline of 2025 to implement these upgrades at Brisbane Airport, it cannot do so absent of any commitment either by airlines or the Commonwealth that will enable it to recover these costs over a reasonable timeframe.

BAC encourages the Commonwealth to review and reconsider its approach to aviation security and the funding models currently in place.

BAC endorses the AAA's submission on this matter.

#### ***Are there options to improve environmental outcomes while maintaining an efficient and effective aviation sector?***

The vast majority of the impact of the aviation industry, globally, is from aircraft fuel emissions. This is the single largest environmental challenge the industry faces. The growing public concern about this issue, and the emergence of 'flight shaming' campaigns, particularly in the northern hemisphere, only add to the urgency required in addressing these concerns.

For a country that is so dependent on aviation for internal and international connections, this is particularly critical.

As is detailed in the AAA's submission, the environmental impacts of Australia's aviation industry are dealt with by membership of global organisations such as ICAO and adherence to international protocols such as its State Action Plan on emissions reduction. BAC strongly endorses the AAA's call for the Commonwealth to work through ICAO to protect Australia's aviation future. As a country so deeply exposed to aviation, Australia cannot afford to allow countries with viable ground-based national and international transport options, to set targets that Australia cannot possibly achieve without great cost to the Australian people.

BAC also commends the AAA's summary of ways in which the Commonwealth can assist airports to reduce emissions and deliver improved environmental outcomes.

Brisbane Airport's carbon emissions are in steady decline from a peak in 2013. Our investment in 22,000+ solar panels and electric bus fleet (the largest in Australia) have cut emissions by nearly 7,500 tonnes each year. And a new recycled water line will save 1.2 billion litres, or around 500 Olympic pools of potable water, every year.

As is detailed in the AAA's submission, with the introduction of LED lighting for airfield and facilities, 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 the sector with these improvements.

**Sustainable Aviation Fuels (SAFs):** BAC supports the trialling of lower emissions jet fuels, including biofuel/jet fuel blend. Brisbane Airport partnered with Virgin Australia in the trialling a supply of biofuels through our jet fuel distribution network.

Whilst the financial impact of the COVID Pandemic on airports and airlines alike will necessarily impede immediate capacity to continue to invest in trials and other exploratory activity, the importance of finding ways to reduce our industry's emissions cannot be over-stated.

The AAA's contention that current international measures through ICAO agreements such as CORSIA and national measures such as the Safeguard Mechanism are not sufficient to develop a SAF industry in Australia is supported by BAC. We agree too that 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
- Introduce subsidy on SAF to match incentive on road transport fuels

**PFAS:** BAC does not now and has never used firefighting foams containing PFAS. PFAS contamination at Brisbane Airport is a legacy of use by entities other than BAC, including Airservices Australia and its predecessor, as well as by airlines and bulk fuel suppliers

BAC accepts its responsibility to fulfilling its general environmental duty in relation to PFAS but endorses the AAA's call for:

- Airservices Australia to be appropriately funded to investigate, contain, and remediate PFAS pollution in accordance with the PFAS NEMP, and
- A review of the onerous application of the PFAS NEMP on airports when undertaking commercial developments and infrastructure upgrades/expansions.

## **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?***

Australia's Federally leased airports are assets of national significance. Equally, their ability to operate as a network, under consistent regulatory frameworks, safe from local political concerns, is critical. It is the Commonwealth's responsibility to protect assets of national interest so regulatory control must stay with the Commonwealth.

BAC endorses the call for the Commonwealth to reduce the regulatory burden by allowing 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 (like hotels or commercial developments). This would also provide enormous assistance to airports in terms of providing better non-aeronautical cashflows over the coming years as aero returns will remain below profitability. This would represent a no-cost action for the Commonwealth, requiring only ministerial approval.

BAC also endorses the AAA's request 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. 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.

Further BAC agrees that regulatory changes 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 Federally leased Airports.

BAC would also encourage the Commonwealth to consider other options to support airports and their commercial tenants to recovery through simple steps such as the lifting on Duty Free limits on certain goods. The flow on benefits of this to Australian producers, such as the wine industry, would be significant.

#### **TARGETED ASSISTANCE:**

##### ***Targeted assistance: Aviation skills and workforce development***

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

BAC endorses the AAA's submission in relation to skills and workforce development.

##### ***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?***

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 Government annual appropriation; and regulatory services fees.

BAC supports the AAA's suggestion of a range of options including an annual appropriation to CASA which safeguards it against exposure to volume risk. It is essential for the industry as a whole that CASA's revenues do not increasingly rely on direct cost recovery from industry through user fees or other options that increase the regulatory burden.

**END**