

Department of the Treasury
Langton Crescent
PARKES ACT 2600
E: prebudgetsubs@treasury.gov.au

1 February 2019

Australian Airports Association (AAA) - Submission to Commonwealth Budget 2019-20

Dear Minister,

I am writing to you in relation to the upcoming Commonwealth Budget for 2019-20 and would like to bring the critical issue of regional airport infrastructure funding to your attention.

By way of background, the Australian Airports Association (AAA) is the national industry voice for airports in Australia. The AAA represents the interests of more than 340 airports and aerodromes Australia wide – from local country community landing strips to major international gateway airports. The AAA's members include Adelaide, Brisbane, Cairns, Canberra, Darwin, Gold Coast, Hobart, Perth, Melbourne and Sydney airports. There are a further 150 corporate members who provide goods and services to airports. The Charter of the AAA is to facilitate co-operation among all member airports and their many and varied partners in Australian aviation, whilst maintaining an air transport system that is safe, secure, environmentally responsible and efficient for the benefit of all Australians.

In October 2017, the AAA launched its *Protect Regional Airports* campaign, highlighting the important role regional airports play in this country by supporting exports, providing employment and developing tourism. The campaign also identified a number of the unique challenges regional airports face, including wildlife issues, historic and outdated lighting and poor surfaces.

This campaign includes express support and endorsement from several independent third-party organisations, including the Royal Flying Doctors Service (RFDS), Regional Aviation Association of Australia (RAAA), Australian Logistics Council (ALC) and the Australian Local Government Association (ALGA).

Protect Regional Airports is in strong alignment with a number of Government policies including the importance of international trade, regional development and tourism. As part of the campaign, the AAA has called on the Government to address the challenges faced by regional airports by implementing a two-pronged approach to funding:

1. Extend the Remote Airstrip Upgrade Programme (under the Regional Aviation Access Programme) for four more years.
2. Develop a new airport grants program for regional airports (not just remote airstrips) to fund essential aeronautical infrastructure work at regional airports to the value of \$25 million per year for four years.

In the Budget 2018-19 released in May this year, the AAA warmly welcomed the Government's announcement to accept one of our recommendations and extend the Remote Airstrip Upgrade Programme (under the Regional Aviation Access Programme), providing \$28.3 million over four years. This was a great outcome for remote communities across the country.

However, the AAA is now calling on the Government, as part of the Budget process, to **re-consider our second central recommendation and establish a new Regional Airport Infrastructure Fund (RAIF)** to assist regional airports undertake essential aeronautical infrastructure work at their airport.

This campaign builds on an ACIL Allen research report the AAA released in September 2016, which for the first time, sought to quantify the extent of the financial challenges faced by regional airports across Australia in maintaining infrastructure to facilitate safe aviation operations. The AAA, with support from other industry organisations, is asking the Commonwealth Government to provide all regional airports with access to dedicated funding to undertake essential infrastructure investment to improve aviation safety and to keep regional Australians connected.

In addition to the following submission, I have also included two attachments for your reference:

1. *Protect Regional Airports* – campaign summary and fact sheet (updated October 2018); and
2. ACIL Allen Report: *Regional Airport Infrastructure Study – Economic Contribution and Challenges of Regional Airports in Australia*.

This submission also highlights several other important issues for the airport industry, including resourcing for the Department of Home Affairs and Civil Aviation Safety Authority (CASA), as well as the challenges associated with the costs of new airport security requirements.

I trust that you will give the following submission and attachments due consideration and would welcome the opportunity to discuss any of these matters with you further. Please do not hesitate to contact Simon Bourke (AAA Policy Director) on sbourke@airports.asn.au or 02 6274 3104 should you have any questions.

Yours sincerely,



Caroline Wilkie
Chief Executive Officer



AUSTRALIAN
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ASSOCIATION

AAA Submission to the Commonwealth Budget 2019-20

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1. BACKGROUND

Australia’s airports are fundamentally community assets, with over 2000 landing sites for aircraft across the country. While the majority of these are very small and private sites not generally available for public use, there are 322 Australian airports that are certified (190) or registered (132) by the Civil Aviation Safety Authority (CASA). Certification or registration is essential for the operation of regular public transport (RPT) services at an airport, however many small regional airports that do not attract these services still choose to incur the effort and cost of becoming registered. This allows them to have published instrument approach procedures and facilitate essential services for their local community such as the Royal Flying Doctor Service.

The airport industry in Australia can be generally broken into four broad categories:

- capital city and major privatised airports;
- regional airports;
- Department of Defence airports; and
- completely privately-owned airports and airstrips.

There are 21 federally leased airports across Australia, which include the capital city and major airports. A table of these airports is outlined below.

ACT	NSW	QLD	NT
Canberra	Sydney	Brisbane	Darwin
	Bankstown	Gold Coast	Alice Springs
	Camden	Townsville	Tennant Creek
		Archerfield	
		Mt. Isa	
VIC	TAS	SA	WA
Melbourne	Hobart	Adelaide	Perth
Essendon	Launceston	Parafield	Jandakot
Moorabbin			

These airports were sold to the private sector by the Commonwealth Government from 1996 under long-term lease arrangements. While these airports are operated, maintained and upgraded by the private sector, they remain ultimately owned by the Commonwealth Government.

A very large number of Australia’s regional airports were also originally owned and operated by the Commonwealth Government, generally for military use. When no longer required for those military purposes, these airports were gradually transferred to the ownership of the relevant local government authorities under Aerodrome Local Ownership Plans (ALOP) or sold to private interests. This is far more than a matter of historical interest, because the ALOP agreements under which these transfers took place impose obligations on the recipient local government to maintain and operate the airport as an airport. More detail on these obligations is provided in Section 3.

Aside from the 21 federally leased airports listed above, the 19 Department of Defence airports and privately-owned airstrips, the vast majority of the remaining 322 certified and registered aerodromes are owned and operated by the local government authority / council for the community they serve.

For the purposes of this submission, we generally classify this subset of aerodromes as our regional airports. Within the broad classification of regional airports, there are a number that have been fortunate enough to benefit from substantial Regular Public Transport (RPT) traffic due to passenger demand based on tourism and business-related travel. These larger regional airports tend to be able to generate enough revenue to cover their operating and capital expenditure costs. While they, like all infrastructure providers, welcome the opportunity to apply for Government grant funding programs, their viability is not necessarily dependent on financial support.

That being said, the regional airports that are the focus of this submission are those that are unable to generate sufficient revenue from their operations to cover their basic operating and capital expenditure cost. These regional airports generally have relatively limited RPT services, if any at all, yet they facilitate critical and essential services for the communities they serve. The AAA believes it is essential that the Federal Government recognises the importance of our regional aviation transport network and ensure that appropriate funding assistance is provided where it is needed most. This will ensure that communities in regional Australia are able to have a safe and operational regional airport in order to not be unnecessarily isolated or disadvantaged.

2. IMPORTANCE OF REGIONAL AIRPORTS

For most Australians, their contact with an Australian airport is associated with work or leisure travel on a scheduled Regular Public Transport (RPT) flight between one of the major capital city airports and either an overseas destination, another capital city airport or, perhaps, a major Australian tourist destination.

But while such travel is statistically predominant, there are numerous other forms of aviation activity, particularly at Australia's regional airports that are of vital importance to the community and economy.

It is common for aviation observers to categorise aviation activity along such lines as "RPT", "charter", "GA (General Aviation)" and "sport/recreation". While these terms are commonly used, they are not always helpful. The term "GA", in particular, fails to convey the great breadth of activity and community service that Australia's aviation industry delivers.

The following indicates how diverse aviation activities at regional airports can be:

- RPT, charter and private flights from Australia's regional, rural and remote airports allow those who work and live outside the major cities to access the specialist health, education, commercial and recreational facilities that are not economically available where they normally reside; allow travel by health professionals to the regional community; and enable regional residents to maintain and enjoy the pleasure of their relationships with distant families and friends.
- Particularly in regional Australia, airports play an essential role in saving lives by facilitating medical evacuations, collection and delivery of organ donations and search and rescue. For example, the Royal Flying Doctor Service (RFDS) is a non-for-profit organisation which offers health care to those people who are unable to access a hospital or basic general practices due to their extreme geographic isolation. Currently, the RFDS has 68 national aircraft, covering the length and breadth of the country. The RFDS predicated its operations on the availability of airport or airstrip networks in outback locations throughout Australia. In 2014/2015, the RFDS provided 4,336 emergency evacuations. This essential emergency service provides assurance to people living, working and travelling in rural and remote Australia, where there are often few other health services available.
- Australia's regional airports also play a vital role in protecting Australia's physical assets – enabling aerial firefighting in areas where road transport is impossible or would be too late.
- Regional air services support the attraction of staff to, and their retention in, regional and remote communities by minimising the isolation that can be involved in working away from family and friends.
- Air services keep Australians in touch with one another and the world, because they are frequently used to deliver the mail and our daily newspapers.
- Law enforcement bodies, such as the Western Australia Police Air Support, and border protection agencies, operate out of Australia's regional airports, particularly in Northern and Western Australia.

- Australia’s vegetable and animal produce is significantly enhanced by aerial agriculture services like crop dusting and mustering operated from regional airports.
- Freight services to and from regional airports allow many businesses to operate “just-in-time” inventories and access markets for often high-value or time-sensitive products.
- Australia’s regional airports offer facilities for pilot training for both those who wish to fly privately and those who wish to earn their living flying commercially in Australia or overseas. A number of regional airports provide flexible training facilities that do not conflict with the flight paths of capital city airports, while minimising noise impacts in densely populated areas.
- Aerial survey and aerial photography activity often requires access to regional airports.
- Australian airports generally, and not just those owned or operated by aero clubs, allow many thousands of Australians to enjoy the pleasures of sport and recreational flying.

The exact mix of these diverse aviation activities at each Australian airport varies to meet the needs of the particular community which the airport exists to serve.

2.1 *Social impacts*

Regional aviation plays a vital role in connecting individuals, families and communities with the rest of Australia and the world. Overcoming remoteness is one of the key challenges of sustaining regional communities. Obviously, people’s ability to access regional aviation services depends critically upon its affordability.

Most importantly, RPT services to regional Australia keep our nation together. Without access to RPT services, families and friends would become more fragmented, grandparents would see less of their grandchildren and regional Australians could not access the leisure activities available to their city cousins. Importantly, RPT services provide essential access to healthcare, education and the legal system for regional residents.

Whilst acknowledging the role of the RFDS in providing lifesaving medical services throughout regional Australia, RPT services also play a vital role in ensuring Australians living in regional areas have access to quality health services. Every day throughout Australia, medical professionals board aircraft in capital cities to travel to regional centres to provide a wide range of specialist services. Similarly, Australians living in regional areas board flights, mainly to capital cities, so they may access medical services. Such trips are either self-funded or supported by the Patient Assisted Transport Scheme (PATS). Without access to RPT services, many people would not have access to these forms of healthcare.

While new technologies have the potential to revolutionise education for regional and remote students, this is still some way off. As a result, many children still need to travel to capital cities and major regional centres to complete their school education. After that, those who wish to undertake tertiary education or many TAFE courses also need to travel and live away from home to pursue their careers. Beyond private road transport, RPT services provide the only access to education for these young Australians. Equally, these services ensure students can remain in contact with their families, in both good times and bad. RPT services are also vital for ensuring specialist teachers, often in STEM disciplines, can travel to schools in regional areas to offer specialist classes.

In many parts of Australia there simply are no lawyers – the Chief Justice of Western Australia, the Honourable Wayne Martin AC QC, told the 2014 Productivity Commission inquiry into Access to Justice that there were no solicitors in private practice in Western Australia living between Geraldton and Broome . Access to RPT services ensures people can travel to major centres to see their lawyers, and lawyers and courts may travel to regional communities to dispense justice and protect the rights of citizens.

Example: Connecting Indigenous communities

Gove Airport in the Northern Territory serves the mining town of Nuhulunbuy and nearby Indigenous communities. RPT services from Air North provide critical links to large centres such as Darwin and Cairns as well as linking the community to Groote Eylandt. The airport is operated by the Nuhulunbuy Corporation which consists of a team of 30 people overseeing four strategic areas:

- Finance;
- Aviation and compliance;
- Strategic infrastructure; and
- Community engagement.

The Nuhulunbuy Corporation facilitates a community advisory committee, known as the Nuhulunbuy Town Board, to provide feedback to the Corporation on how to improve services and facilities it is responsible for, such as Gove Airport.

The airport also provides the gateway to the East Arnhem Land Region, a growing tourism area offering true outback adventure and four-wheel drive experiences, as well as fishing and bird watching opportunities. The value of the tourist dollar to communities like Nuhulunbuy goes beyond the small business owner and deep into the Indigenous community.

2.2 Economic impacts

Contribution of Regional Airports

Regional airports make significant economic contributions to local and regional economies, both through their direct expenditures and associated flow-on effects. The AAA has recently commissioned two reports on the economic contribution of regional airports to the national economy: one from [ACIL Allen](#) and another from [Deloitte Access Economics](#), both of which are available via the AAA website and embedded links.

ACIL Allen estimates the total expenditure by the operators of all regional airports was approximately \$185.4 million in 2014-15. Regional airports themselves generate significant employment directly and through associated industries. This represents a significant injection into regional economies and communities across Australia.

At the individual airport level, ACIL Allen estimates that a typical regional airport with RPT services induces approximately \$830,000 in spending in the rest of the Australian economy per annum, while a non-RPT regional airport induces approximately \$64,000.

ACIL Allen estimated expenditure of regional airport operators induced an additional \$83.4 million in spending in the rest of the Australian economy.

In the Deloitte Access Economics report released earlier this year, it is estimated that regional airports contributed \$477 million in value-add directly from their operations in 2016-17, as shown in Table 2.1.

Table 2.1 : Total economic contribution of airport core activities, 2016-17

Total Economic Contribution	GOS (\$m)	Value Added (\$m)	Wages (\$m)	FTEs
Major airports	3,572	4,411	839	7,097
Major regional airports	194	303	109	945
Regional airports	43	144	100	485
Remote airports	10	30	20	195
Total	3,820	4,888	1,067	8,722

Table 2.2 shows that that in addition to core airport activities, regional precinct level activities at regional airports were estimated to contribute a further \$2.2 billion. This includes businesses located in airport precincts, such as office parks, retail, logistics operations and airlines.

Table 2.2 Economic contribution of airport precinct activities, 2016-17

	Direct value added (\$m)	Indirect value added (\$m)	Total value added (\$m)
Major airports	14,766	11,666	26,432
Major regional airports	943	744	1,667
Regional airports	318	197	515
Remote airports	25	22	47
Total	16,051	12,610	28,661

Facilitating Market Access

Regional air services facilitate access to larger national and international markets. The wider availability and falling price of international air transport has enabled trade with distant markets for many more businesses in recent years, driving economic growth and raising living standards. Regional communities rely on air services to carry freight such as fresh produce and flowers to capital cities for export or consumption there. The number of regional airports now supporting international services to provide producers access to overseas markets continues to grow, and will be increasingly important in supporting regional economies.

Reliable air links to regional areas also make it easier for businesses to visit customers, suppliers, subsidiaries or parent companies in other locations. In a majority of cases, services linking a region with their state capital is essential. However, in recent years, key regional centres have also started linking with interstate capital cities. For example, Dubbo in NSW also has links to Melbourne and Brisbane. Most of these new services are the result of collaboration between airports and airlines that are not part of the domestic aviation duopoly, such as JetGo and Fly Corporate.

While employment opportunities attract people to regional areas, regional airports are essential in securing a reliable workforce in their communities. This was evidenced during the resources construction boom in the late 2000s when regional airports such as Karratha, Newman and Port Hedland in WA, and Gladstone, Moranbah, and Mackay in Queensland all became hubs for FIFO workers. The influx of resource and construction workers to towns saw a huge surge in economic benefits before slowing from 2011 onwards. However, the resident workforce remains the backbone of these regions, especially as the resources boom moves into the production phase. Communities continue to rely on RPT services to provide connectivity and ensure their community is an attractive location for people to work and raise families long after the boom has ended.

3. THE INFRASTRUCTURE CHALLENGE

3.1 Regulatory Environment

Australian airports, like many industries, are subject to government regulation across a diverse range of fields and by a diverse range of regulators.

Some of these are common to all Australian commercial businesses, such as:

- The Corporations Law, administered by the Australian Securities and Investments Commission;
- Trade practices and consumer protection laws, administered by the Australian Competition and Consumer Commission and State and Territory Offices of Fair Trading;
- Occupational Health and Safety laws, administered by various Commonwealth, State and Territory regulators;
- Workplace relations laws, administered by various Commonwealth, State and Territory regulators; and
- Disability discrimination laws.

There are, however, other regulatory regimes that are particular to airports – the most obvious of course is air safety. The Civil Aviation Safety Authority (CASA) has the primary function of conducting the safety regulation of civil air operations in Australia. The regulations and standards set by CASA are necessary to ensure airport aeronautical infrastructure meets the needs of aircraft to operate in a safe and effective manner. Unfortunately, due to the nature of the infrastructure and maintenance required to facilitate safe aviation operations, the cost of meeting these necessary safety standards can be very high.

Civil Aviation Safety Authority

CASA is the Commonwealth regulator with primary responsibility for aviation safety, including for the operation of airports. It categorises airports by reference to the passenger carrying capacity of aircraft that use them.

1. A certified airport is one which has a runway that is suitable for use by aircraft having:
 - a) maximum passenger seating capacity of more than 30 seats; or
 - b) a maximum carrying capacity of more than 3400 kilograms; and is available for use in regular public transport operations or charter operations by such aircraft.
2. An airport that does not meet those requirements may apply to be registered by CASA if it has been inspected by a person approved by CASA and found to meet certain prescribed requirements, which include a number of the requirements that must be met by certified airports.
3. Other requirements apply to an airport that is not a certified or registered airport but is used at least once a week by an aircraft that is engaged in regular public transport operations or charter operations and has a maximum passenger seating capacity of more than nine seats but not more than 30 seats.

4. Finally, other requirements apply to an airport when used at least once a week by an aircraft that is engaged in regular public transport operations or charter operations with a maximum take-off weight (MTOW) not exceeding 8618kg, and fitted with a passenger seat configuration of not more than nine.

Depending upon which category an airport falls into, it will be subject to differing regulatory requirements. These requirements are generally detailed in a Manual of Standards (MOS) and associated publications produced by CASA, setting out very detailed standards that airports must comply with in relation to the operation of their airports. CASA periodically audits the airports' compliance, and can initiate legal action where required.

As will be apparent from the above description, whenever an airline proposes to change the nature of the air services it provides to and from a particular airport, this has the potential to change the CASA categorisation of the airport and move it into a more tightly regulated category. There may be considerable expense and effort required for an airport to meet the increased regulatory requirements to meet the airline's proposal, and yet the airline will generally not be prepared to undertake to maintain the new air services that necessitate that expense and effort on an ongoing basis.

The AAA is currently working closely with CASA on a significant review of the MOS Part 139 – Aerodromes and associated regulations. While we are hopeful this review will result in practical and streamlined improvements to the regulations and standards for the industry, the cost of compliance in providing safe airport facilities will always be high. This is simply due to the nature of the significant infrastructure and maintenance costs required to operate a safe aeronautical facility.

CASA also conducts regular surveillance exercises at airports across the country to ensure compliance with the relevant safety standards is maintained. In recent advice from CASA, the industry was informed that in the calendar year of 2017 there were 110 outstanding safety findings as a result of surveillance exercises at airports. While safety findings do not indicate an immediate threat to safe operations, they do identify issues that require rectification in order to prevent them becoming a danger, and to ensure compliance with the standards. Unfortunately, the vast majority of the 110 outstanding safety findings were attributable to regional airports and associated with significant infrastructure works required to maintain the long-term viability of the airport. However, due to a lack of available funding within the local councils operating these airports, many of these safety findings remain unresolved and pose a longer-term risk for aviation operations to those regional communities.

3.2 Infrastructure Costs and Investments

Financial Position of Regional Airports

In 2016 the AAA commissioned ACIL Allen Consulting (ACIL Allen) to undertake a study (provided as an *Attachment to* this submission) on the economic and social contribution of regional airports across Australia and to analyse the financial challenges they face in operating and maintaining these airports. The findings of the report confirmed what the industry has known for many years – that despite being critical infrastructure assets for regional communities, on average many regional airports across

Australia do not have adequate funding to maintain or improve their existing airport infrastructure, with the problem only growing worse as time goes on.

Key Findings of the ACIL Allen Report

The study involved a comprehensive consultation and survey of AAA regional airport members to get actual data and information relating to their annual revenues and expenditures, as well as projected costs and any known aeronautical infrastructure projects over the coming years.

The report confirmed that regional airports are of critical importance to regional economies and communities, enabling access to specialist health, education, commercial and recreational facilities, and facilitating social connections. Unfortunately, even though regional airports facilitate essential air transport services for the surrounding region, in many cases there is simply no ability to generate enough revenue to cover the costs of operations.

As previously noted, the vast majority of regional airports across the country are owned and operated by local government councils. These councils often find it difficult to supplement the funding shortfall that exists at many regional airports, due to limited budgets and the variety of other infrastructure and community services that compete for local government funding.

The report found that:

- On average 61% of regional airports had budget deficits in 2014-15, with non-regular public transport (RPT) airports' costs exceeding revenues by an average 45.6%;
- RPT regional airports surveyed had an average of \$2.28 million in revenue in 2014-15 compared with an average expenditure of \$2.36 million. This equates to a 3.4 per cent funding gap, which means these airports do not have the funds to invest in new capacity or meet any new security requirements;
- Nearly 40% of Australia's regional airports expect persistent budget deficits over the next 10 years;
- The cost of operating a regional airport is expected to rise by 38% over the next decade, adding to the already difficult financial environment; and
- Australia's regional airports expect an annual budget deficit of at least \$17 million per year, equating to a \$170 million shortfall in essential infrastructure and maintenance funding at regional airports over the next decade. However, we believe the figure to be even larger due to ageing infrastructure.

Simply maintaining a regional airport in a compliant condition often creates significant financial stress. This can be further compounded by upgrades to meet future aviation needs or new security requirements. The actual extent of the financial challenge facing the sector is likely to be even greater than is indicated in the ACIL Allen report, which assumes assets will simply be maintained at the status quo. However, for many airports, infrastructure upgrades will be required as aircraft fleets evolve and regulatory standards change, while runways, aircraft parking aprons, taxiways and lighting systems also reach end-of-life.

Some regional airports experiencing persistent funding gaps will find themselves under increasing financial pressure that might ultimately result in their closure and cessation of operations and service provision.

Regional Airport Investment

It is essential not to underestimate the importance of investments in regional airport infrastructure, as it can make a significant difference to efficiency and passenger experience at regional airports, as well as open up new economic opportunities.

Some recent examples of regional airport investment include:

- Albury Airport is completing a \$5 million terminal upgrade in 2018;
- Dubbo Airport's recently completed \$7 million runway strengthening project is being followed by a \$7 million airport and aero-medical facilities upgrade, currently underway;
- Roma Airport completed a \$5 million runway upgrade in 2017;
- Emerald Airport completed its \$5 million runway upgrade in 2017;
- Cloncurry Airport completed a \$4 million terminal upgrade in 2016 to support increased passenger numbers;
- Port Macquarie is expected to commence its terminal upgrade at a cost of \$7.5 million in 2018;
- Port Augusta recently completed a \$1.2 million terminal upgrade; and
- Ballina-Byron Bay has a \$5.5 million terminal precinct expansion underway in 2018.

While these examples are excellent boosts for those regional communities, the fact remains that airport investment carries a degree of risk. Predicting future use at regional airports is inherently difficult and uncertain, because demand for RPT services is strongly influenced by general economic conditions and unforeseen events, such as the discovery of nearby mineral resources or the development of a new tourist attraction. The need to upgrade terminal facilities and conduct runway maintenance has increased over time as a result of the trend towards larger and heavier aircraft on regional routes. Airports are required to identify and commit to periodic expansion investments well in advance to facilitate the timely broader economic development from tourism, resources development or other industries.

Indeed, while airlines have benefitted from improvements in efficiency from innovation in aircraft, the technologies in airport assets have not provided the same cost savings. Airstrips are still essentially the same as they were 70 years ago, about the time many regional airport runways were built in WWII. The introduction of larger aircraft on regional routes can provide advantages to airlines through cost reductions in labour, maintenance or fuel. Passengers also benefit from improved travel experiences in more modern aircraft, however these advantages require costlier airport infrastructure.

Airlines are reluctant to commit to particular activity levels and may withdraw from a route due to lower than anticipated demand, well before the cost of any upgrade has been recovered. Airlines will not enter into "take or pay" contracts that have been used to finance other infrastructure development, such as gas pipelines and coal loaders.

A number of regional airports have committed to expansions in response to demand driven by the resources construction boom, only to find services reduced or withdrawn altogether at its end. For example, from 2007 to 2013, the annual passenger throughput at Port Hedland grew from 159,000 to 512,000, but by 2017 the number of passengers using the airport has fallen 30 per cent to around 360,000. This means there is a considerable risk that regional airport investment can become “stranded” and lie idle for many years before its cost has been recovered by the airport operator.

It is also worth noting that in a survey conducted by the AAA of its regional airport members earlier this year, results indicated that around 50 per cent of regional airports index their charges to inflation whilst more than 25 per cent have not had a price increase in the last five years. This represented a real price reduction in excess of 10 per cent over that period. A small number of airports reported they had reduced charges in nominal terms under pressure from airlines to maintain existing services or incentivise new ones. Some airports reported moving to charging on a full cost recovery basis to help fund airport improvements but have been encountering airline resistance, following years of charges being held constant in nominal terms.

Future Regional Aviation Infrastructure Needs

The last decade has seen the introduction of higher capacity aircraft on some regional routes. These larger aircraft have allowed airlines to benefit from improved efficiencies and reduced operating costs. The introduction of heavier aircraft has not been without consequences for regional airports. Increased wear and tear on runways, taxiways and aprons has necessitated major remediation works for a number of airports. Depending on the extent of the works required, costs can exceed \$10 million for complete runway replacements.

Many aerodromes are currently looking to upgrade lighting systems to the latest LED technology, to ensure Civil Aviation Safety Authority (CASA) compliance and realise long-term cost benefits. LED lights are more energy efficient and will provide savings in the longer term, however immediate replacements costs are substantial and require specialist installation. To upgrade lighting systems, a full replacement of legacy systems is required (some of which date back to World War 2). This is a costly infrastructure project for any airport. Remote airports also face a ‘tyranny of distance’ challenge, with the specialist equipment and staff needed to facilitate airport infrastructure typically not locally available. Costs to relocate equipment and specialist staff for the duration of airport works must also be factored into projects.

Limitations of Current Government Assistance Programs

The AAA warmly welcomed the Government’s announcement as part of the 2018-19 Budget to extend the Remote Airstrip Upgrade Programme (under the Regional Aviation Access Programme) with \$28.3 million over four years. However, due to the eligibility criteria and quantum of this fund, many regional airports not classified as ‘remote’ are unable to access it and the pool of funding is much too small to address the needs of hundreds of regional airports.

The AAA acknowledges that some regional airports have been successful in securing funding through other general infrastructure funding schemes such as the Building Better Regions Fund (and the former National Stronger Regions Fund). These programs required applicants to demonstrate both

economic and social benefits resulting from funding being awarded. Unfortunately, there are many regional airports that simply cannot adequately compete with other infrastructure funding proposals in relation to the economic benefit that may be derived from the grant funding. While regional airports do generate some significant economic benefits, given their small size and operations (see ACIL Allen report for figures), their primary benefits are related to the interconnectivity and facilitation of essential services for the community. These benefits are much more difficult to quantify and limit the ability of many small regional airports to compete for funding in such schemes.

The AAA believes that the existing Remote Airstrip Upgrade Programme is a critical funding scheme, as it recognises the need for remote airports to have a specific pool of funding assistance due to their unique circumstances and high capital and operating costs. However, it is important that consideration be given to the establishment of an additional pool of funding to provide significant financial relief to many regional airports that are not currently able to compete for any other form of funding. More detail on this proposal is outlined in section 5.

3.3 Financial Viability

Regional airports are faced with extremely difficult maintenance and investment decisions. Aviation demand is strongly influenced by general economic conditions and unforeseen events such as the development of nearby mineral resources. This means that predicting future services at regional airports is inherently difficult and uncertain. Major projects need to be planned well in advance with often lengthy timelines due to scale and complexity. Compounding the risk for regional airports is that demand from airlines is not underpinned by long-term contractual commitments.

While aeronautical related revenue such as aircraft landing fees or passenger fees can be used to fund necessary works, we must recognise full cost recovery through passenger charges may make routes unviable leading to a reduction or cessation of services.

As stated by one member, 'it is an impossible task to charge enough to cover certain infrastructure projects, if you raise the costs – the community will end up losing the services.'

Airlines are reluctant to commit to particular activity levels and may withdraw from a route due to lower than anticipated demand well before the cost of any upgrade has been recovered. For example, large aircraft services requiring aviation security screening have been withdrawn from Albany, Esperance and Port Lincoln despite considerable investment by the airports to comply with regulatory requirements.

These external forces, which are beyond the control of regional airports, compound what is already an inherently difficult financial challenge. Generating sufficient revenue from aviation activity to cover operating costs is very difficult for small regional airports without RPT services in particular. If any capital infrastructure work is required, this needs to be provided by the local council (in the absence of Government assistance), which diverts valuable resources away from other essential community services. Without appropriate Government funding assistance, many small regional airports may no longer be able to provide safe and sustainable airport infrastructure.

4. CASE STUDIES

The AAA has consulted with its members and outlined below are several examples of where essential infrastructure projects have been identified at regional airports to ensure continued safe aviation operations.

Example 1

ASGC Description	Inner Regional – Queensland
Services facilitated	RPT Certified (100,000 – 249,999 passengers per annum), fly-in-fly-out charter services, RFDS Operations, Careflight.
Project identified	Widen taxiway to CASA 'Code C' wingtip clearance standards, as well as upgrade the RPT aircraft parking apron lighting with LED lights to meet CASA standards.
Safety implications	Currently not compliant with CASA safety standards.
Projected cost	Total of both projects – \$350,000

Example 2

ASGC Description	Outer Regional – South Australia
Services facilitated	RPT Certified (5,000 – 19,999 passengers per annum), fly-in-fly-out charter services, RFDS Operations.
Project identified	Installation of animal proof boundary fence, RFDS aircraft parking apron upgrade, lighting (PAPI) installation and standby power upgrade.
Safety implications	Reduce animal incursions to runway/taxiway. Provide an essential precision approach facility for aircraft, backup power in case of outage. Improved RFDS access.
Projected cost	Total of all projects - \$600,000

Example 3

ASGC Description	Outer regional – Queensland
Services facilitated	RPT Certified (5,000 – 19,999 pax per annum), RFDS operations
Project identified	Aircraft parking apron upgrade, runway extension and reseal, runway lighting upgrade, precision approach facility.
Safety implications	Runway, apron seal and lighting system are approaching end-of-life and need to be upgraded to maintain safe aviation services.
Projected cost	Total of all projects - \$5,000,000

Example 4

ASGC Description	Outer Regional – Victoria
Services facilitated	Non-certified aerodrome (0 – 14,999 movements), fire-fighting operations, medical evacuation.
Project identified	Runway extension
Safety implications	Accommodate fire-fighting tanker use to assist in fighting bushfires in regional Victoria.
Projected cost	\$350,000

Example 5

ASGC Description	Inner Regional – Victoria
Services facilitated	Non-certified aerodrome (>20,000 movements) medical evacuation, flight training, aerial agriculture services.
Project identified	Upgrade Taxiway to CASA Code C wingtip clearance standards, strengthen and extend runway, upgrade runway lighting to LED (60 metre spacing).
Safety implications	Currently not compliant with CASA standards.
Projected cost	\$6,000,000

Example 6

ASGC Description	Outer regional – Western Australia
Services facilitated	Certified aerodrome (>50,000 - <99,999) RPT, medical evacuation, GA.
Project identified	Runway overlay, correction of existing runway to address level, shape and rut filling. Adjustment of runway lighting, new security fence.
Safety implications	Runway, apron seal at end of life required to maintain services. Security fence as per regulations.
Projected cost	\$3,000,000

As is demonstrated from the above case study examples, the costs associated with delivering safe aeronautical infrastructure are very substantial, particularly in the context of a local government budget. These case studies are indicative of the sort of critical aeronautical infrastructure projects that regional airports across the country are seeking Government financial assistance to address. As is evidence in these examples, each of the projects are targeted at addressing a specific safety issue that has been identified as a problem that needs appropriate treatment.

The AAA's position is that any Government financial assistance provided to regional airports should be focused on addressing identified aeronautical infrastructure issues to ensure the ongoing safety and viability of regional aviation operations.

5. RECOMMENDATIONS

While the AAA very much values and appreciates the current Commonwealth funding provided through the Remote Airstrip Upgrade Programme, our analysis has shown that the extent of the financial challenges facing regional airports far exceeds the current direct funding assistance available.

The AAA strongly recommends the Commonwealth Government provides dedicated funding in the MYEFO 2018-19 to regional airports for critical aeronautical infrastructure and maintenance projects. To allow regional airports to continue to play vital roles in sustaining regional economies, enabling access to specialist health, education, commercial and recreational facilities, and facilitating social connections, the AAA and its industry partners are proposing the Government undertake the following.

- **Develop a new Regional Airport Infrastructure Fund (RAIF), which would allow other regional airports (not just those that are remote) to apply for essential aeronautical infrastructure funding. It is recommended this new fund be resourced at \$25 million per year for four years (\$100 million total).**
 - This new program would allow for airports such as Horsham and Swan Hill in Victoria, Moruya and Moree in regional NSW, or Biloela in regional QLD to apply for funding. Under the existing Remote Airstrip Upgrade Programme, these airports would be ineligible to apply for funding assistance.
 - As with the Remote Airstrip Upgrade Programme, it is recommended that this funding be provided for essential aeronautical infrastructure projects (e.g. runways, taxiways, lighting, fencing, etc.) to ensure airports can continue to facilitate safe aviation services and keep regional communities connected.

While the AAA would not like to exclude any regional airports from applying for funding should a new fund be established, it is our view that those most in need of funding assistance are airports with fewer than 250,000 annual passengers. An indicative list of eligible airports is provided as an attachment.

The AAA also supports the traditional co-contribution model seen in other Federal funding initiatives, whereby the Commonwealth contribute 50 per cent of the funding, with the remaining half made up from contributions from the local council (airport operator) and/or state government. However, the AAA would recommend some flexibility to allow this co-contribution model to be considered on a case-by-case basis. This flexibility may be required in a limited number of situations, particularly where the local government authority may simply not be able to make equal contributions or secure state government assistance. In instances where matching contributions are simply not feasible, the AAA believes the RAIF should include provisions to consider fully funding projects via a demonstrated need and case-by-case analysis.

The AAA believes that Commonwealth Government funding assistance is essential for the ongoing viability of regional airports and aviation in Australia. This sector facilitates critical aviation services that often provide the only lifeline for regional communities to the rest of the country. Providing a greater level and scope of financial assistance to regional airports will ensure that the industry is able to continue supporting regional Australia with safe and efficient aviation services.

6. OTHER KEY ISSUES AND RECOMMENDATIONS

The AAA would welcome the Government giving due consideration to the following important issues, which the AAA believes would benefit from additional funding to avoid detrimental impacts on the industry and the Australian travelling public more broadly.

Resourcing for the Department of Home Affairs

Since being established in late 2017, the Department of Home Affairs has encapsulated a multitude of Government functions previously carried out by a number of separate Government agencies. The two most notable aviation related entities that have been incorporated into the Department are the Australian Border Force (and the associated functions within the previous Department of Immigration and Border Protection), as well as Aviation and Maritime Security (formerly the Office of Transport Security).

While bringing all these Government functions together under the one overarching umbrella agency does have benefits in relation to information sharing and collaboration on matters of national security, it inevitably creates significant challenges associated with organisational restructuring and resourcing. Although the AAA and its members are not privy to the internal mechanics of this process within the Department, we are exposed to the impacts this has on the performance of Government functions and engagement with industry.

The Department, more specifically Aviation and Maritime Security (AMS), have a significant challenge ahead of them in working with industry to implement the new Government mandated airport security requirements. These changes are the most fundamental step-change we have seen in aviation security screening since its inception; coupled with a very challenging implementation timeline. In this environment, it is essential that AMS have the internal resourcing and staff to work closely with industry to ensure the transition is as practical and efficient as possible. Without sufficient resourcing, the Government risks further delaying and complicating an already difficult and costly transition process for industry.

The efficient operation of Australian Border Force (ABF) operations at our major international airports is also a critical function that requires appropriate Government funding support. While we have seen a substantial advancement in technological innovation in border processing functions in recent years (particularly with the evolution of smart gates and new biometric technologies), ABF staff on the ground still play a critical function.

Unfortunately, a number of our major international airports are still experiencing significant passenger queuing and delays in peak periods for border processing functions, which in many instances are attributable to insufficient ABF personnel. The resourcing of border agency staff appears to be largely based on outdated service level targets that are averaged over a 24-hour period and do not adequately account for significant peaks in passenger flow.

This insufficient staff resourcing also comes at a time when the Government has established a new border services policy that will be shifting significant border agency costs (such as equipment and staff recruitment) onto airports when international terminals are being established or redeveloped. While

most of these border agency costs were originally designed to be offset with the establishment of the Passenger Movement Charge (PMC), the Government has clearly indicated this no longer the case. The revenue collected from the PMC now has no direct link to the appropriations provided to border agencies in the Budget, rather it is consolidated into the Commonwealth's general revenue.

With airports now incurring unprecedented capital costs to comply with the Government's new security and border services requirements, it is essential that at the very least industry be able to rely on the Department of Home Affairs (and ABF as its operational arm) to be resourced appropriately to carry out its functions effectively and efficiently. The AAA recommends that the appropriations provided to the Department of Home Affairs be increased in order to ensure industry is not further burdened by the consequences of an under resourced critical Government agency.

Resourcing for the Civil Aviation Safety Authority (CASA)

Aviation safety is the highest priority for airports across the country and as a result, significant time, effort and resourcing is devoted to achieving the highest levels of safety and compliance with relevant legislation, regulations and standards.

The Civil Aviation Safety Authority (CASA) is the regulator of safety for the aviation industry and the AAA and our members work very closely with CASA on a variety of different issues, and in recent years have developed a very productive working relationship. Unfortunately, CASA (like many Government agencies) is facing significant resourcing challenges and an ever-increasing workload.

In relation to the airport sector, the next few years for CASA will be particularly challenging due to the amount of development and change in the sector. Three of the four largest airports in the country are currently either constructing, designing or planning the development of new runways, which require a considerable amount of resourcing from CASA to manage the compliance and commissioning processes. This is in addition to a multitude of additional runway, lighting and other aeronautical projects occurring simultaneously at dozens of major and regional airports across the country.

Beyond aeronautical developments, CASA is also required to conduct safety assessments of commercial developments at airports to ensure they are compliant with aviation safety requirements. With airports increasingly pursuing commercial development opportunities for financial sustainability, the number of development proposals will continue to increase.

CASA also undertakes critical safety surveillance and auditing assessments at airports across the country on a regular basis, which of course is a resource intensive and time-consuming process. Additionally, CASA has just recently completed a wholesale review of airport safety standards and regulations. With this review now complete there will be a substantial amount of resourcing required to communicate and educate the industry through the transition process and work collaboratively to develop appropriate guidance material.

There are also emerging issues such as drone activity, which have recently gained increased attention due to incidents at Gatwick and Heathrow airports in the UK. In order for CASA to be able to adequately respond to such emerging threats, it is essential that appropriate resourcing be provided to ensure its other critical functions do not suffer as a result.

The AAA recommends that the appropriations provided to the Civil Aviation Safety Authority adequately recognise the significant increase in work load facing the agency in the next 12 months and beyond, noting its already constrained and limited resources. It is essential for the viability of the industry and safety of the travelling public that the Government's aviation safety regulatory be able to carry out its critical functions to the best of its ability, without being unnecessarily restricted by unreasonable resourcing allocations.

Funding for new security screening requirements at airports

As mentioned previously, in last year's Budget the Government announced substantial changes to the security screening requirements at airports across the country. As part of this announcement, the Government allocated \$50.1 million to fund the purchasing of new screening equipment at regional airports across the country.

While the AAA warmly welcomed this funding assistance for our members, it unfortunately did not extend to the terminal and infrastructure changes a number of regional airports will need to make to accommodate the new equipment.

The AAA surveyed its regional airport members last year and found that additional infrastructure costs across the country to accommodate the new security screening requirements could amount to \$25 million. These cost are associated with terminal reconfigurations, floor loadings, power supply upgrades and potential ventilation and HVAC upgrades.

While the full extent of infrastructure changes required at regional airports is not yet clear, with many still finalising planning and design parameters, the AAA is aware that airports such as Whyalla, Newcastle, Emerald, Broome, Geraldton, Launceston and Alice Springs all expect to incur additional infrastructure costs.

These additional costs will ultimately result in upward pressure on airfares for regional aviation, which are already under significant pressure. The current lack of capacity in the domestic aviation market has resulted in a situation where economy airfares are now at their highest level in nine years. In a sector where margins are very tight and customers in regional communities are very sensitive to price increases, it is essential that the Government minimise the financial impact of any new regulatory requirements it places on the industry. This is particularly important for communities in our regions, where aviation travel is not a luxury but a necessity, and it is imperative that these communities are not further disadvantaged by costs increases resulting from Government mandated requirements.

The AAA would warmly welcome any additional funding assistance the Commonwealth may be able to provide in the upcoming Budget to assist our regional airport members with these additional security related infrastructure upgrades. In the AAA's primary Budget submission, we have called for the establishment of a Regional Airport Infrastructure Fund (RAIF) for essential aeronautical infrastructure upgrades. If additional dedicated security funding is not available, we would welcome the proposed RAIF also being used for security related terminal and infrastructure work, in the event the Government agreed to its establishment.