



**The Senate Rural and Regional Affairs  
and Transport Legislation Committee**

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

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**Submission of the Department of Infrastructure, Transport,  
Regional Development and Communications**

**January 2021**

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## 1. Introduction

The Department of Infrastructure, Transport, Regional Development and Communications (the Department) is pleased to make this submission to the Senate Rural and Regional Affairs and Transport Legislation Committee's *Inquiry into the future of Australia's aviation sector, in the context of COVID-19 and conditions post pandemic*.

The Department has responsibility for implementing the Australian Government's aviation policy framework, including over the COVID-19 period.

A strong and sustainable aviation sector is critical for Australia's prosperity. Prior to COVID-19, aviation moved over 100 million domestic and international passengers each year, transporting workers, tourists, and high value produce, and connecting Australian communities with each other and the world.

Aviation was devastated by COVID-19, in Australia and around the world. At the peak of the crisis, passengers carried in Australia fell by around 97 per cent and over 30,000 aviation workers were stood down or laid off.

The Australian Government acted fast to maintain essential connectivity and preserve industry capacity during the COVID-19 pandemic. The Government has provided for over \$2.7 billion in targeted and timely support which:

- maintained essential air connectivity
- preserved critical aviation capacity, and
- kept supply chains open for air freight imports and exports.

As Australia's economy recovers, domestic aviation is expected to recover to pre-COVID-19 levels. However, until a vaccine is widely available there remains the continued risk of COVID-19 outbreaks and recurring travel restrictions. At this stage, there is no clear pathway to full re-opening of international aviation.

The Government's Five Year Plan for Aviation, to be released in the first half of 2021, will strengthen Australia's aviation sector coming out of COVID-19, and ensure Australia retains a competitive and efficient sector and access to essential aviation services.

The Plan will support a strong, safe and sustainable aviation sector, setting out policies to support:

- reduced regulatory burden
- greater local decision making, and
- targeted investment for strategic aviation infrastructure to improve regional connectivity and essential service delivery.



## 2. Aviation is key to Australia's prosperity

Aviation underpins Australia's economy and society — facilitating business, employment, education, tourism and visits to family and friends.

Australia's aviation sector has grown strongly in recent decades.

- Between 1985 and 2019, the number of international passengers carried annually rose from around 5 million to around 42 million (Box 1: Chart 1).
- Between 1985 and 2019, the number of domestic Regular Public Transport (RPT) passengers carried has increased from around 13 million to around 61 million per year (Box 1: Chart 2).
- Aviation as a form of travel has become more important to Australians, growing as a proportion of total passenger kilometres travelled from around 5 per cent in 1985 to 16 per cent in 2019 (Box 1: Chart 3).

Aviation plays an important role servicing the needs of regional and remote communities across Australia by providing access to key services including transport and freight, medical, search and rescue, social and law enforcement, and business/tourism travel. The total number of passenger movements through regional airports between 1985 and 2019 increased from around 9 million to around 26 million (Box 1: Chart 4).

In 2019, the air and space transport industry contributed around \$10 billion to the economy, or 0.5 per cent of GDP. In February 2020, the ABS estimated that around 52,000 people, or 0.4 per cent of the labour force, were employed in the air and space transport industry. Aviation is an enabler of the Australian tourism industry. In 2019-20, tourism directly contributed around \$50 billion to Australia's GDP (2.5 per cent of GDP) and around 620,000 jobs (4.8 per cent of the workforce).

The aviation sector is also integral to many freight supply chains. Air freight comprises a small proportion of Australia's international freight task by mass (0.1 per cent), but represents around 20 per cent of trade by value. Total Australian international air freight recently surpassed 1 million tonnes annually (Box 1: Chart 5).

The aviation sector acts as a crucial enabler for agriculture, manufacturing and mining.

- Some agricultural exports are highly dependent on aviation, with almost 80 per cent of seafood (by value) exported by air.
- Revenue from goods manufactured in Australia and exported by air is approximately \$42 billion or 11.7 per cent of manufacturing exports.
- Australians regularly fly from major population centres to remote mine sites for work, and thousands more Fly-In Fly-Out (FIFO) workers serve the oil and gas industry.

EY analysis for the Business Council of Australia estimates that international aviation supports around 515,000 jobs (Box 1: Chart 6):

- 248,000 jobs associated with education services for international students
- 129,000 jobs associated with freight transport
- 75,000 jobs associated with international holiday makers
- 32,000 jobs associated domestic leisure travel, and
- 31,000 jobs associated with business travel.

### Box 1: Aviation trends in Australia

Chart 1

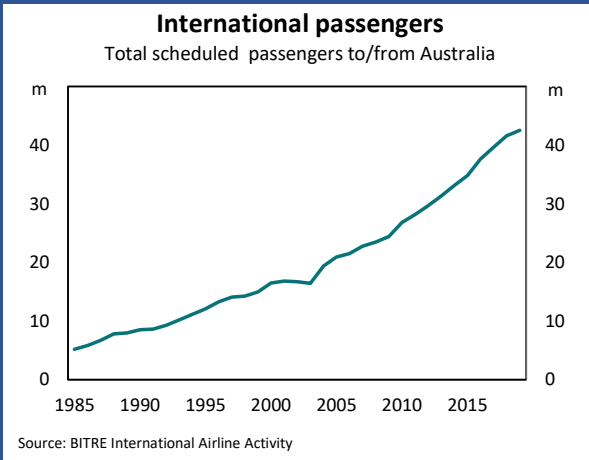


Chart 2

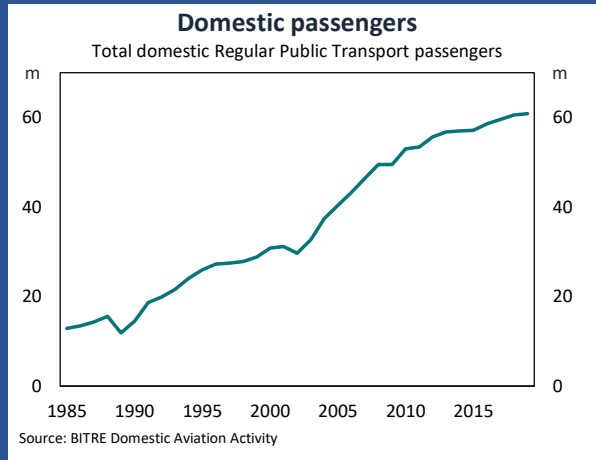


Chart 3

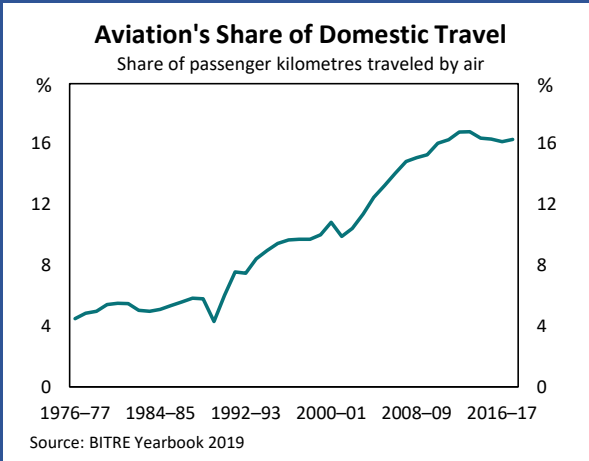


Chart 4

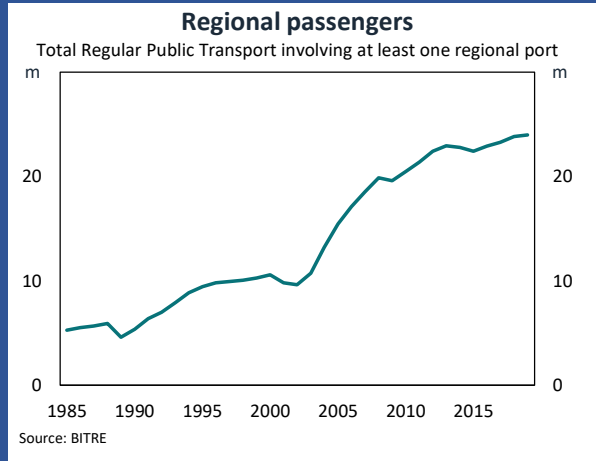


Chart 5

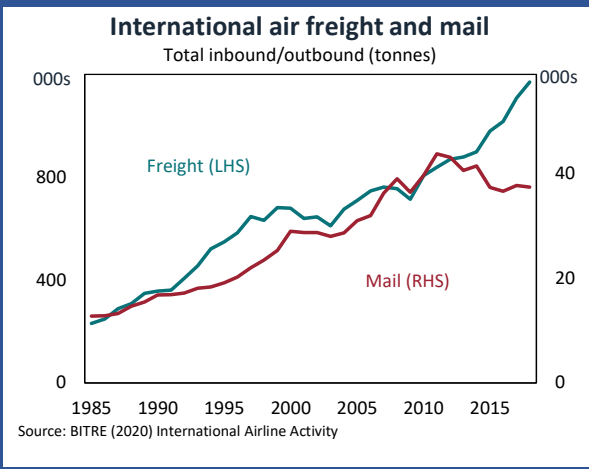
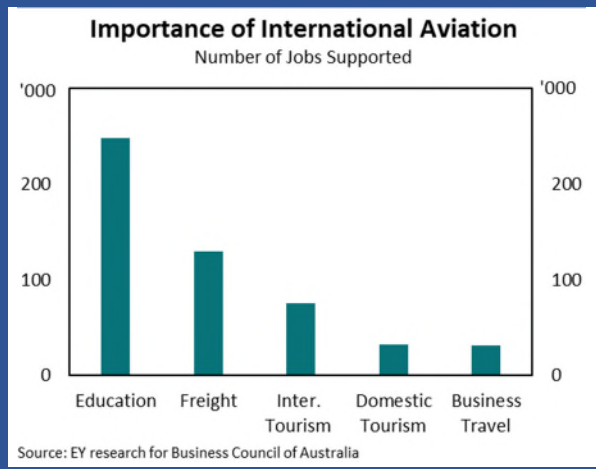


Chart 6



### 3. Aviation was disproportionately affected by COVID-19

COVID-19 and the associated travel restrictions had an unprecedented impact on the global and domestic aviation sector. Reduced demand saw domestic flights in April 2020 fall by around 97 per cent from pre-COVID levels, while international flights into Australia largely ceased due to a ban on arrivals of non-Australian citizens (Box 2: Charts 7 and 8).

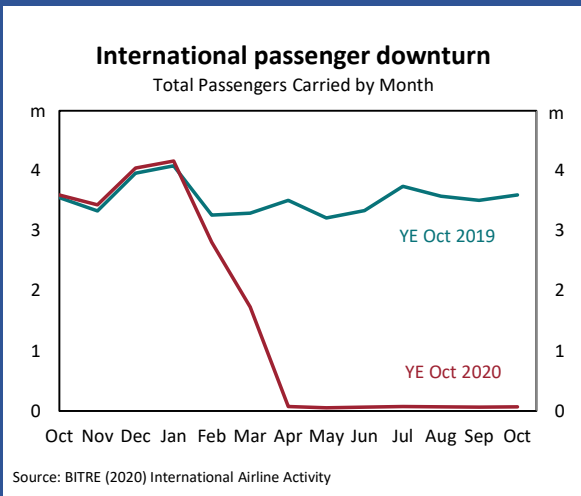
In response to the pandemic, Australian (and most foreign) governments implemented health measures including quarantines, interstate and international border closures, limits on non-essential travel, and stay at home orders. These measures, along with uncertainty for consumers, saw an unprecedented decline in air travel (Box 2: Charts 9 and 10).

- The number of domestic passengers carried on Australian (RPT) flights declined by around 84 per cent between October 2019 and October 2020.
- Passenger movements at regional airports declined by around 66 per cent between October 2019 and October 2020.
- The air and space transport sector experienced the largest decline in Gross Value Added compared with other industry sub-divisions, recording a fall of around 96 per cent in the June quarter 2020. The industry has yet to begin recovering, falling by around 93 per cent over the year to the September quarter 2020.

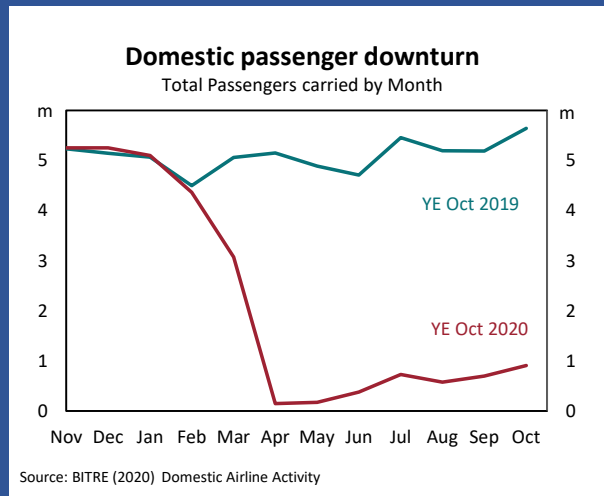
Pre-COVID, Australia had a stable commercial aviation sector. During COVID-19, the aviation sector moved to a government-supported minimum domestic network.

**Box 2: Impact of COVID-19 on aviation**

**Chart 7**



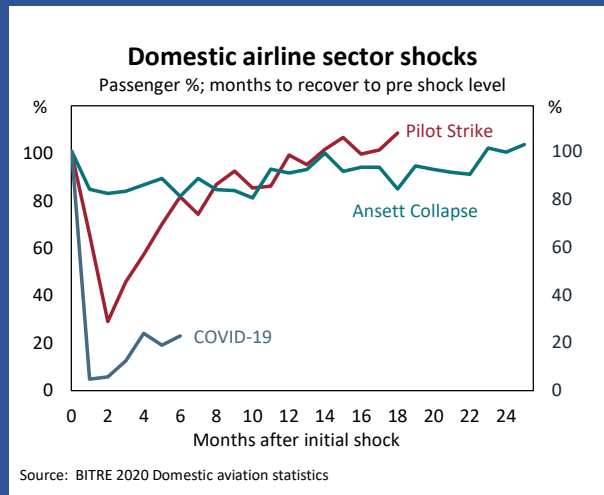
**Chart 8**



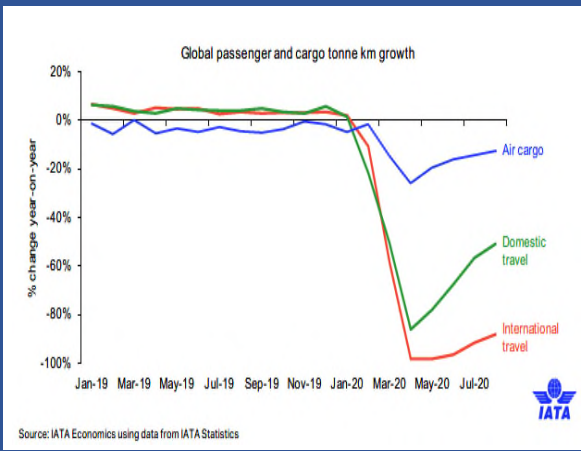
**Chart 9**



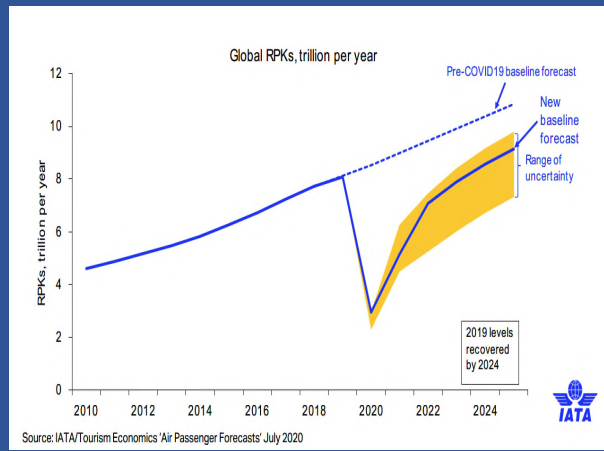
**Chart 10**



**Chart 11**



**Chart 12**





Flights during COVID-19 ran well below capacity, with the reduction in passenger numbers even greater than the reduction in flights. Total domestic RPT load factors declined from almost 85 per cent in October 2019 to below 70 per cent in October 2020. The sector suffered large job losses particularly in the major airlines, which are the sector's key employers.

- Following voluntary administration, Virgin Australia was acquired by private equity firm Bain Capital. The company restructure cut 3,000 jobs cut and discontinued the Tigerair Australia brand.
- Qantas outsourced 2,000 ground handling positions at 10 Australian airports, made 6,000 positions redundant and stood down 25,000 workers.
- The Australian Airports Association estimates that "more than 70 per cent of staff at regional airports have been placed on reduced hours, been re-deployed or made redundant."
- Many smaller aviation businesses have stood down or laid off staff during COVID-19.

Different parts of the aviation network were impacted differently by COVID-19. Data from the International Air Transport Association (IATA) on the global air network (Box 2: Chart 11) shows:

- global air cargo is nearing 2019 levels
- global domestic travel is nearing the half-way mark, and
- international travel remains deeply depressed.

International travel is expected to be the last sector to recover. IATA does not expect global passenger traffic, measured by revenue passenger kilometres (RPKs), to return to 2019 levels before 2024 (Box 2: Chart 12).

## 4. COVID-19 travel bans impacted Australia's broader economy and society

COVID-19 travel bans and restrictions not only impacted Australia's aviation sector; they also impacted a range of sectors that depend heavily on aviation.

Research by EY for the Business Council of Australia estimated the economic loss resulting from the shutdown of domestic aviation at \$17 billion over the March to October 2020 period (\$69 million per day). The economic losses and the collapse of passenger volumes would have been even greater in the absence of Australian Government support.

The Government put in place a range of crisis measures to support those sectors particularly impacted by COVID-19 and associated travel restrictions, including the COVID-19 Relief and Recovery Fund (Box 3).

### Tourism

International passenger travel declined by 98 per cent in October 2020 compared to October 2019. EY estimates that Australia lost around \$61 billion in economic value between March and October 2020 (\$250 million per day).

There is a strong link between domestic tourism recovery and state border controls. South Australia's three-day lockdown period in November 2020 resulted in visitor cancellations within 48 hours.

The opening of a number of state borders has had an immediate positive effect on the aviation and accommodation industries, with more flights being scheduled and accommodation bookings on the rise. Some regional destinations within driving distance of capital cities saw record bookings leading in to summer.

Intrastate tourism has also assisted in mitigating the downturn experienced by the industry. The Government has announced \$250 million to boost domestic tourism and tourism infrastructure in Australia's regions that have been hit hard by COVID-19. \$128 million has been provided to help keep travel agents afloat at a time when they are continuing to hold travel credits for consumers who previously cancelled travel.

### Mining

Overall, the mining sector has adapted well to COVID-19 by developing and implementing national protocols and guidelines. However, the sector has expressed concerns about the impact of border restrictions on its FIFO workforce, which have meant workers are unable to fly between work in one jurisdiction and their family in another jurisdiction.

In calling for the re-opening of WA's borders in 2020, the Western Australian (WA) Chamber of Minerals and Energy said this "would help alleviate mental health and wellbeing issues for interstate FIFO workers, who have spent months away from their homes and families during the COVID-19 pandemic" and "would also allow mining and resources sector operators improved opportunities to address current and future workforce needs".

## Agriculture

Interruptions to supply chains due to border closures have caused difficulties for farmers, food producers and distributors. The Australian Government's International Freight Assistance Mechanism (IFAM) has been critical to assist the sector to access continuing export markets.

The agricultural sector is concerned about access to sufficient agricultural labour, particularly seasonal workers, as a result of domestic and international border closures. This has been partly offset by the implementation of National Cabinet's Agriculture Workers Code by New South Wales, Victoria, the Australian Capital Territory and the Northern Territory.

## Education

Australia's tertiary education sector has been severely impacted by the loss of international students due to border closures. Research from the Mitchell Institute for Education and Health Policy forecasts a \$19 billion loss in student revenue over the next three years if the international borders remained closed until the end of 2021.

On 20 July 2020, the Government announced a range of student visa measures to ensure Australia remains a priority destination for international students, including:

- The Government will recommence granting student visas in all locations lodged outside Australia. This means when borders re-open, students will already have visas and be able to make arrangements to travel.
- Further international student visa applications will be free of charge, if they are unable to complete their studies within their original visa validity due to COVID-19.
- Student visa holders studying online outside Australia due to COVID-19 will be able to use that study to count towards the Australian study requirement for a post-study work visa.
- Graduates who held a student visa will be eligible to apply for a post-study work visa outside Australia if they are unable to return due to COVID-19.
- Additional time will be given for applicants to provide English language results where COVID-19 has disrupted access to these services.

In the 2020-21 Budget, the Government announced funding for 50,000 new higher education short courses in agriculture, health, IT, science and teaching and 12,000 new Commonwealth supported places for higher education in 2021. The Government also committed \$1 billion for new research funding for Australian universities following a decline in revenue due to low numbers of international students.

### **Box 3: COVID-19 Relief and Recovery Fund (CRRF)**

The Government is providing \$1 billion through the COVID-19 Relief and Recovery Fund to support sectors, regions and communities disproportionately impacted by COVID-19.

- Backing regional aviation under the Regional Airlines Funding Assistance (\$100 million) and the Regional Airline Network Support (\$198 million) programs
- Export Market Development Grant reimbursements (\$49.8 million)
- Assisting regional businesses in regions heavily reliant on international tourism under the Regional Tourism Recovery Initiative (\$50 million)
- Sustaining tourism at world and national heritage sites (\$33.5 million)
- Waiving fees for tourism businesses operating in the Great Barrier Reef Marine Park (\$8.1 million) and Commonwealth National Parks (\$0.8 million) and free entry to national parks (\$11.2 million)
- Supporting Australia's exhibiting zoos and aquariums (\$94.6 million) for fixed operational costs associated with caring for animals
- Helping businesses participate at pre-approved events, exhibitions and trade shows (\$50 million)
- Assisting regional businesses in regions heavily reliant on international tourism under the Regional Tourism Recovery Initiative (\$50 million).



## 5. The Government reacted quickly to support aviation through COVID-19

Since the start of the pandemic, the Government has provided \$251 billion in direct economic support to Australian households and businesses. The Government focused on delivering a range of crisis support to the aviation sector. This support maintained networks, connected communities, reduced regulatory burdens and kept people in jobs.

Working closely with the sector, the Government provided over \$2.7 billion in assistance through the worst of the pandemic. This assistance not only supported service delivery during the crisis, but provided stability to drive the sector's recovery into 2021 and beyond.

The Government's assistance achieved three goals:

- maintaining essential air connectivity
- preserving critical aviation capacity, and
- protecting supply chains for air freight imports and exports.

Crisis support for the aviation sector has been proportionate, targeted and time-limited. The Government has transitioned from direct financial assistance to ensuring minimum network connectivity, amid some enduring uncertainties in the operating environment.

### Maintaining essential air connectivity

#### Domestic Aviation Network Support (DANS)

The DANS program is providing support to ensure services to all major airports from April 2020 to 28 March 2021.

Connectivity between capital cities and major regional centres was maintained throughout the pandemic, with 90 per cent of RPT airports remaining open. To 29 November 2020, DANS enabled 695,293 passengers to travel on 10,371 flights.

Key freight links were maintained between domestic and international markets so that all Australians could continue to access the goods they needed and Australian producers could move their product to market.

#### Regional Airline Network Support (RANS)

The RANS program is providing support to ensure minimum air connectivity to over 110 airports in regional and remote Australia from March 2020 to 28 March 2021 (Box 4). More than one-third of Australians live in regional communities. Many depend on regular flights to access essential goods and services, and for transport to major regional hubs and capital cities, for example to access medical treatments.

As at the end of November 2020, more than 16,600 flights had been supported by RANS, enabling more than 245,000 passengers to travel and maintaining critical air freight links around Australia.

#### **Box 4: RANS - Keeping Lord Howe Island connected**

Lord Howe Island is one of Australia's most isolated settlements, Port Macquarie is 600 kilometres to the West and Sydney is 780 kilometres to the South West. The Island is a UNESCO World Heritage Site of global natural significance, as it is largely comprised of untouched forest with an array of flora and fauna not found anywhere else on Earth.

To protect the Island's unique biodiversity and the limited resources available on Lord Howe, there are tight controls on the numbers of visitors who can be on the Island at any one time. In addition, the land suitable for the Island's airport is extremely limited, meaning only the smallest commercial passenger aircraft can operate.

The Island relies on regular flights from the mainland to access to health, employment and educational services. Air services are also essential for delivering time-critical supplies including perishable food items, medical supplies (including test samples), as well as mail.

Regular Public Transport air services to the Island rely heavily on tourism to achieve commercial viability. In March 2020, the NSW Government implemented a Public Health Order that restricted travel to the Island to residents and essential personnel, which remained in place until 2 October. This resulted in a dramatic fall in passenger numbers, rendering commercial flights unsustainable without external support.

The RANS program maintained a minimum level of connectivity between Lord Howe Island and the mainland throughout the crisis. This enabled Island residents to continue to access health services on the mainland, and facilitated the transportation of critical supplies. With the repeal of the Public Health Order, tourism to the Island is increasing and flights are becoming commercially viable once more.

#### International Aviation Network

As international borders started to close, the Australian Government worked with airlines to assist those stranded abroad to return home. \$129.8 million was provided for the operation of flights to critical international hubs, including London, Hong Kong, Auckland and Los Angeles. The Government also facilitated flights from Peru, Argentina, South Africa and India.

This network support facilitated flights to transport 8,000 people in and out of Australia during the peak of the crisis from April to June 2020.

#### Preserving critical aviation capacity

##### Australian Airline Financial Relief Package (AAFRP)

AAFRP provided \$715 million in direct and indirect support to airlines, through fee-waivers, changes to operations charges and some limited direct financial assistance to 31 December 2020.

At 30 November 2020, the total benefit to industry in direct rebates for fuel excise and domestic security costs was \$126.3 million. The total Airservices charges waived for 1,300 domestic flight operators totaled to \$145.8 million.

#### Regional Airports Screening Infrastructure (RASI)

Initially a component of the AAFRP, the \$66 million RASI program provides a funding contribution towards the minimum necessary capital and initial operational costs of enhanced security screening at eligible regional airports.

The program will reduce the cost burden on regional airports in implementing enhanced security screening requirements, and avoid those costs flowing through to airlines, and ultimately ticket prices, via screening charges. Regional communities will benefit from the program, particularly as air travel continues to recover from the COVID-19 pandemic.

#### Regional Airlines Funding Assistance (RAFA)

Between April and December 2020, \$100 million was made available to deliver last-resort cash flow assistance to regional airlines that provide essential services to regional and remote locations (Box 5).

This critical program enabled regional air operators to remain solvent through the crisis and adjust to evolving conditions in a lower activity environment. Support tapered as travel restrictions eased and demand increased. Air charter activity is now at the highest levels on record and aeromedical demand has also returned to normal in areas with no restrictions on elective surgeries and in-hospital treatments (for example, cancer treatment).

### **Box 5: RAFA – Maintaining essential services to regional Australia**

The RAFA program assisted a range of air operators, from RPT providers connecting regional and remote communities to other operators delivering essential services to some of Australia's most isolated communities.

A number of RAFA funding recipients deliver aero-medical transport services around the country, which supports access to high-quality medical care core for those in regional and remote communities. Services provide transport with staff who are specially trained to support the transport of patients.

Charities are a significant driver of these aeromedical services. When a small charity lost its major fundraising source with little notice, RAFA funding allowed it to continue to transport critically ill children from regional and remote NSW to receive treatment in metropolitan hospitals.

RAFA also supported air services for the delivery of, and access to, day to day goods and services for remote communities dependent on air travel. RAFA funding ensured local operators could continue to deliver essential freight and personnel to remote Indigenous communities inaccessible by road, such as a weekly 'tucker run' to keep school children fed at an isolated school in West Arnhem Land.

RAFA support also helped air operators pay their bills to local business, trades people and other service providers that may otherwise have been left with outstanding debts had the air operators ceased trading or otherwise been unable to pay creditors. This provided much needed economic activity in the small communities in which these air services operate.

## Protecting supply lines for air freight exports and imports

### International Freight Assistance Mechanism (IFAM)

Under the IFAM, \$669 million has been committed to 30 June 2021 to maintain established supply-chains that support industries delivering high-value, time-sensitive and perishable and vital imports and exports. IFAM reconnected international air freight routes from all state and territory capitals through a combination of grants to allow access to existing commercial flights, contracting international charters on specific routes with little to no commercial services, and creating domestic air bridges (Box 6).

IFAM funding supported transport of over 252,000 tonnes of air freight and reconnected supply chains to around 67 international destinations between April and 9 December 2020. These direct international connections supported regional and rural producers and growers reliant on airfreight to get their products to customers.

Importantly, the package also provided logistical and administrative support for the movement of critical imports (PPE and manufacturing supplies) and freight to support the national interest during the COVID-19 health crisis.

#### **Box 6: IFAM – supporting local producers**

One of IFAM's key roles was to facilitate connectivity between producers in regional Australia and global markets. This made it possible for small operators to continue selling products, and to plan for the future. IFAM focused on the transport of time-sensitive and perishable goods.

Bega Cheese is a well-known Australian company founded as a cooperative in 1899 in the New South Wales town of Bega, in the heart of a region that remains a focus of the Australian dairy industry today. Even after its listing on the Australian stock exchange in 2011, just under half the shares are owned by its local farmer-suppliers.

While Bega Cheese has a strong domestic presence, its products are exported to 40 countries worldwide with just under one-third of its revenues derived from these export markets. International market access slowed, or stopped altogether as a result of COVID-19, making it difficult for Bega Cheese to ship its products.

Bega Cheese sought the support of IFAM to provide modest assistance to re-establish freight connectivity and maintain consumer confidence in its international markets. As a result of IFAM, Bega Cheese's products were able to be delivered, relationships with international partners were maintained and local farmer suppliers were able to keep producing and generating revenues.

By keeping Australian products moving, IFAM kept suppliers in business, people in jobs and supported communities in regional Australia.

#### **Other Australian Government support**

The Australian Government provided other kinds of support for the sector and passengers during the COVID crisis. This ranged from fees and charges relief, increased regulatory support and improved health and safety guidance. This support was targeted to deliver further improvements to passenger confidence, maintain the safety of the sector during the crisis and further reduce cost demands on airports.

#### **Jobkeeper**

The Australian Government delivered support to the broader Australian economy through Jobkeeper, which provided payments that enabled businesses to retain their employees where COVID-19 restrictions on movement reduced revenues. Many businesses directly or indirectly related to aviation were eligible for support, keeping flights in the air and people moving, particularly during the peak of the crisis.



### Support for federally-leased airports

The Government recognised that airports are increasingly the centre of transport, logistics and tourism precincts. Federally-leased airports were provided temporary relief and deferrals from land-tax-equivalent payments, if they provided rent relief to commercial tenants during the crisis. This measure reduced cost pressures on airports as they managed reduced revenues from fewer flights and enabled tenants to direct more resources toward operations and staff retention.

### Waiver of Airservices Australia charges

A 50 per cent waiver of Airservices Australia charges will be provided from 1 January 2021 to end-March 2021 for aeromedical and Regular Public Transport flights. The waiver lowers costs for airlines as they bring more of their domestic networks back online.

### Domestic Passenger Journey Protocol

The Government worked collaboratively with the aviation industry to develop the Domestic Passenger Journey Protocol, to reduce the risk of COVID-19 for Australians travelling domestically by air. It achieved this by providing clear and consistent advice on risk minimisation principles and processes at airports and on aircraft. The Protocol was informed by health advice from Australian authorities and guidance from international aviation authorities, and supported by the Australian Health Protection Principal Committee and National Cabinet.

The clear, consistent approach provided through the Protocol helped increase public awareness of the aviation industry's risk reduction efforts, and helped rebuild consumer confidence to travel by air.

### Australian Competition and Consumer Commission (ACCC) monitoring

High levels of uncertainty, structural shocks to the sector and very limited supply posed a risk to the competitiveness of aviation during the crisis. The Government tasked the ACCC to monitor prices, costs and profits in the domestic air passenger industry for three years to protect competition in the industry. The ACCC will prepare and deliver regular reports on potential risks to competition in the sector.

### Regulator support

Australia's air safety regulator, the Civil Aviation Safety Authority (CASA) and air traffic management provider, Airservices Australia, provided industry-wide support through a range of measures including direct fee relief, changes to licence renewal procedures, and increased flexibility for those operating services in remote Australia. The Government provided additional funding to ensure that these organisations could continue to perform their critical safety functions and provision of essential aviation services, during the immediate crisis and into the recovery.

## 6. Aviation is expected to recover as borders re-open

Australia stands out among advanced economies for its low COVID-19 infection rates and comparatively strong economic resilience in the face of the pandemic. As borders re-open and the economic impact of COVID-19 abates, Australia's domestic aviation sector is expected to return to a stable, commercial network.

Australia's aviation sector was showing early signs of recovery in the latter months of 2020. Over the three months prior to December, flights on trunk routes had increased almost fivefold, while total flights increased by over 30 per cent. However, since the latest outbreak, the number of flights have declined sharply showing the fragility of the recovery (Box 7: Charts 13 and 14). The economic and aviation outlook are both subject to a range of uncertainties and risks. Domestic aviation is likely to return faster than international aviation particularly given Australia's response to the COVID-19 pandemic. However, further COVID-19 outbreaks remain possible until a vaccine becomes broadly available.

- Australia has entered into separate agreements with a number of vaccine providers for the supply of COVID-19 vaccines.

This will strengthen Australia's access to safe and effective vaccines as they become available throughout 2021. The Government expects to be able to commence vaccinations of high priority groups in mid to late February, with a population-wide vaccination program fully in place by late 2021. While vaccines are becoming available in some countries, it will take some time for activity restrictions to be eased globally.

### Pace of economic recovery

The 2020-21 Mid-Year Economic and Fiscal Outlook (MYEFO) noted that Australia's initial economic recovery beat expectations, as the economy grew strongly in the September quarter. Recent indicators suggest that this momentum continued into the December 2020 quarter.

- In 2020, real GDP was expected to fall by 2½ per cent, before growing by 4½ per cent in 2021.

MYEFO noted that the labour market has improved markedly recovering almost three-quarters of employment and almost two-thirds of hours lost at the height of the crisis.

### Pace of aviation sector recovery

Over the past decade and a half, the Australian aviation network has experienced a period of relative stability. While some parts of the network are more vulnerable, Government support over COVID-19 means the network overall remains robust.

Most routes and businesses across the Australian aviation sector are expected to recover along with the economy.

However, the aviation sector faces a number of economic forces which create uncertainty around the pace of the recovery.

Some negative outcomes that may hold-back aviation demand include:

- lower consumer demand associated with reduced disposable income
- a structural shift away from in-person to remote business meetings
- concerns about in-flight transmission of COVID-19, and
- a slower than expected return for international aviation and hence international tourism.

Australians travelling overnight accounted for 84 per cent of trips on domestic flights in 2019. Almost half of these trips were for business travel, typically on the main capital city routes. If there is a shift by businesses towards less travel and a hesitation among holidaymakers and visiting friends and relatives (VFR) travellers to fly, this demand may be slow to fully return.

- The ABS household impacts of COVID-19 survey, conducted in late October 2020, found that fewer people planned to travel over the summer holiday period, but a higher proportion planned to travel locally compared to previous years (Box 7: Chart 15).
- According to IATA's global passenger survey between April and September 2020, fewer passengers were willing to travel within the next two months or so and a greater share indicated they will wait a year or more to resume their usual travel plans (Box 7: Chart 16).

Some positive outcomes that may increase aviation demand include:

- lower oil prices reducing the price of aviation services
- pent-up demand for visits to family and friends, and
- substitution towards domestic tourism.

Australians spend more overseas than international visitors do domestically. Domestic demand could be supported by travellers substituting overseas travel for domestic holidays.

- Tourism Research Australia identified that more than nine million international visitors came to Australia in 2019, spending a total of \$45 billion. With only \$31 billion of this international spend reaching the Australia economy, this was overshadowed by the \$107 billion Australians spent on domestic overnight travel and daytrips.
- It was also significantly less than the \$65 billion spent by Australians on 11.6 million outbound trips – half of which was holiday travel.

It is difficult to measure the impact of substitution between domestic and international tourism. Domestic tourists have different travelling and spending patterns to those travelling overseas: trips tend to be shorter, lower yield and involve fewer activities.

Any deterioration in Australia's economic outlook, or negative structural changes in the network, would likely delay the return to a stable and commercial aviation network.

### Recovery of aviation routes

The recovery of aviation routes will not be uniform, with major routes recovering faster than some regional routes, and some international routes potentially taking years to fully recover.

Aviation routes can be classified under three categories based on their expected recovery from COVID-19:

- **resistant** – where COVID-19 did not disrupt the long-run growth path
- **resilient** – where coming out of COVID-19, demand recovers and returns to its long-run growth path
- **non-resilient** – where routes are unable or take longer to recover from the COVID-19 disruption.

Across Australia, charter routes have so far been resistant to the COVID-19 pandemic, with fixed-wing charter operators carrying over 309,000 passengers in October 2020, an increase of 16.5 per cent on October 2019 (Box 7: Chart 17).

Similarly, mining routes have been resilient but face risks should global demand for resources decline.

- Total cargo movements at Australian airports on domestic RPT flights were 31,500 tonnes in October 2020, a decrease of around 20 per cent compared with October 2019 (Box 7: Chart 18).

Tourist and non-tourist regional routes are particularly vulnerable to falling domestic incomes and international border closures (routes dependent on international tourism will likely be the last to recover).

- Outside the cities, holiday destinations such as Tropical North Queensland, Lasseter (Uluru) and the Whitsundays have a very high reliance on overseas travellers.

Coming out of the COVID-19 pandemic, airlines are likely to focus on more historically profitable routes.

The loss of a few routes in any given year is not unusual – some routes disappear as others appear. Virgin Australia has announced that it will no longer service nine regional routes but will expand its partnership with Alliance Airlines on around 40 routes as a way to continue serving regional markets.

Qantas, Rex, Alliance Airlines, Link Airways and Fly Pelican have either added additional routes or are planning to expand their domestic operations, indicating airlines are starting to respond to new market opportunities.

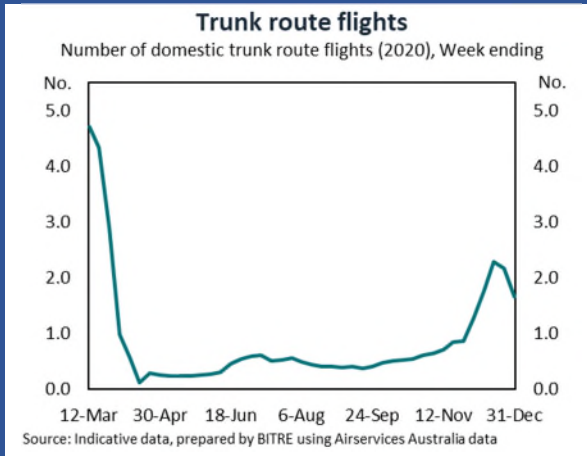
- Qantas has announced that it will be flying to five more destinations across Australia than it was pre-COVID.
- Rex is aiming to operate services on the Sydney-Melbourne-Brisbane triangle in March 2021
- Link Airways has expanded into new routes, including Canberra-Hobart, and
- Fly Pelican has commenced a tourism-focussed Canberra-Ballina service.

Post-COVID, decisions on routes and flight frequencies will return to being commercial decisions for Australia's airlines.

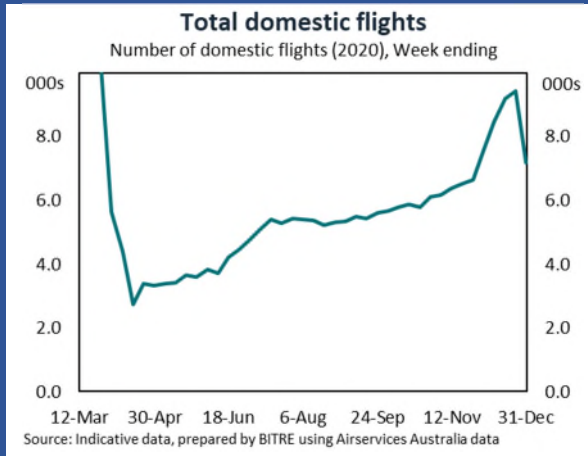


**Box 7: Travel pattern changes through the COVID-19 pandemic**

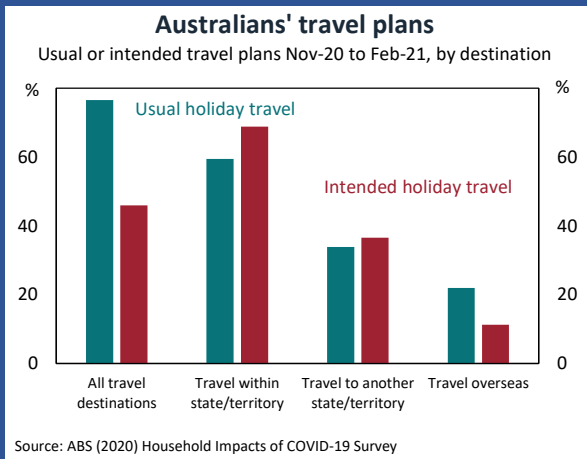
**Chart 13**



**Chart 14**



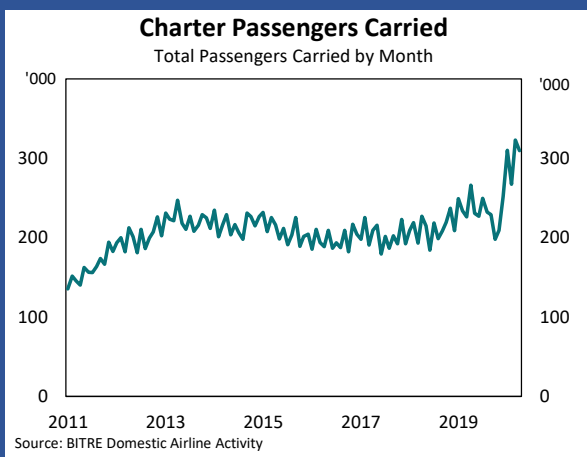
**Chart 15**



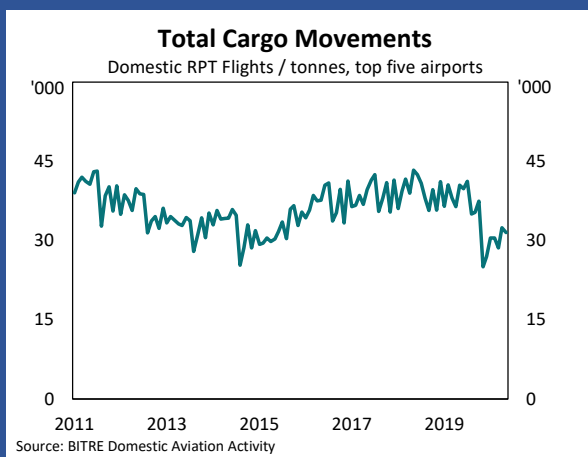
**Chart 16**



**Chart 17**



**Chart 18**



## 7. The Government’s Five Year Plan for Aviation coming out of COVID-19

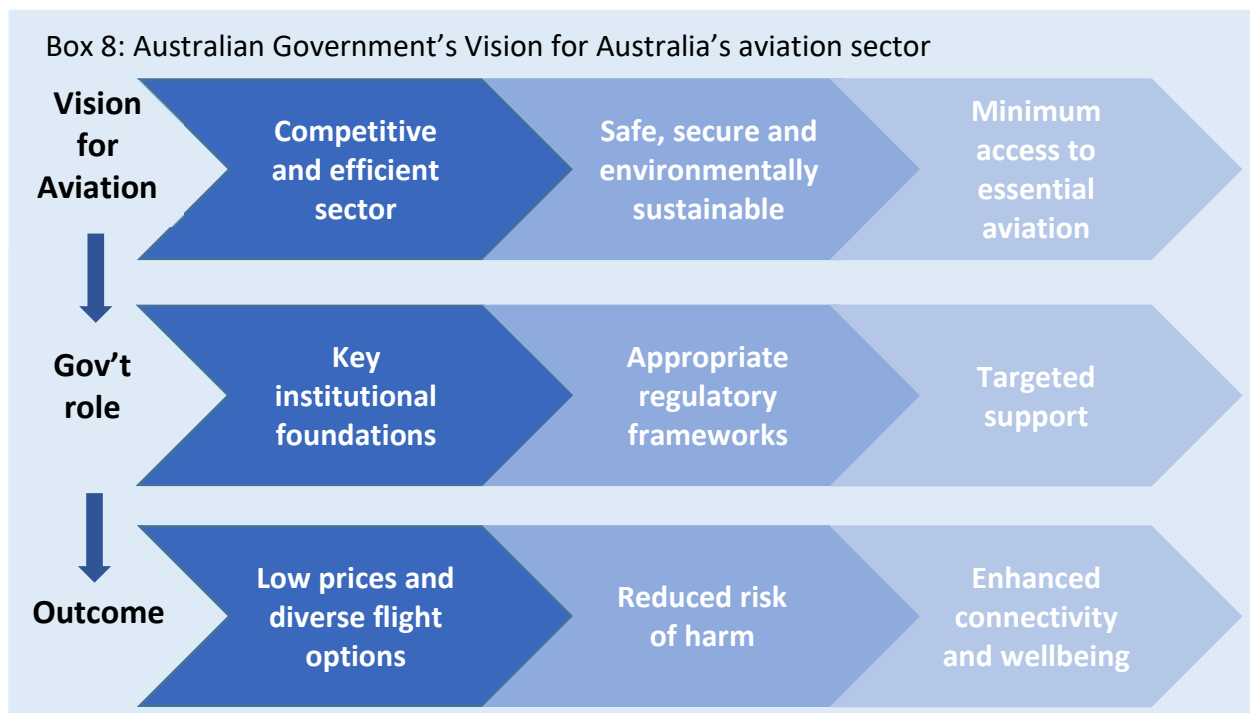
The Government has a clear vision for Australia’s aviation sector beyond COVID-19 (Box 8):

- a competitive and efficient sector – providing passengers with low prices and diverse flight options
- a safe, secure and environmentally sustainable sector – reducing the risk of harm to passengers and the broader society
- minimum access to essential aviation services – enhancing Australians’ connectivity and wellbeing.

The Australian Government is responsible for building a strong economy, and putting in place the institutional foundations, such as a strong rule of law and clear property rights. This fosters competition and efficiency and enables Australian businesses to grow and thrive, providing consumers with choice and certainty.

Within this broad institutional framework, governments are responsible for regulating to ensure that the aviation sector meets key social objectives. The Australian Government is responsible for ensuring the aviation sector is safe and secure, and that environmental standards are maintained.

Governments also have a role in ensuring all Australians have access to essential services – no matter their income or where they live. In aviation, the Australian Government provides targeted support to help Australians in regional and remote areas access essential services such as health and education. This builds on the Commonwealth’s broader role in developing regions and supporting regional services.



The Australian Government has announced that it will release a Five Year Plan for Aviation in the first half of 2021. The Plan will outline the national policies and reforms needed to support the aviation sector through the COVID-19 recovery period and beyond. Reforms to be implemented over the next five years will focus on continuous improvement and on clearing the way for the sector's recovery.

The Five Year Plan will provide policy reforms across three broad areas:

- reducing the regulatory burden to lower costs to business and the community
- supporting greater local decision-making and flexibility to help governments, regulators and businesses respond quickly to local aviation needs
- providing targeted investment for strategic aviation infrastructure to improve regional connectivity and essential service delivery.

To inform the Five Year Plan, in October 2020, the Department released an Issues Paper on the Future of Australia's Aviation Sector. The paper canvassed a range of reform options, for implementation over five years, to strengthen aviation as COVID-19 restrictions are lifted.

The Issues Paper sought written public submissions on the topics covered, with over 60 submissions received. In addition, nine virtual consultations and two face-to-face meetings were held with industry, representative bodies, regulators, other levels of government and the community over November and December 2020. These consultations discussed potential reform directions in more detail, and provided opportunity for the sector to highlight issues of greatest concern. Around 100 stakeholders attended these sessions.

