



13 November 2020

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Dear Director

Thank you for the opportunity for the Australian Aviation Ground Handlers Industry Alliance (AAGHIA) to provide a submission to the Australian Government's *"The Future of Aviation: Flying to Recovery"* plan.

While the Issues Paper discusses the sector's next five years, Australia's ground handling sector needs urgent action to ensure it can support the industry's recovery and operation in the short term.

As you know, aviation cannot exist in Australia without airports, airlines, ground services providers and several other stakeholders. To date, the Australian Government has provided \$1.3 billion in specific support to airlines, while the ground handling sector has largely been forgotten.

We assume this was an unintended policy consequence of a worthy initiative to support one of Australia's most critical industries, however, the imbalance fundamentally threatens the revival of the aviation industry, and through it, Australia's economic recovery.

Skills crisis threatens aviation and economic recovery

The AAGHIA has been warning of a significant skills shortage and capital constraint in a series of letters and meetings during the past several months. This scenario is no longer a warning for the future; it is now a reality as borders open and demand and opportunity for domestic air travel begins to grow, surpassing the sector's capacity to respond.

The constrained resources of the ground handling sector are currently the 'bottleneck' that will slow the recovery of air travel, as it is the sector with the largest number of critical personnel to recruit, train and reaccrredit, many of whom have not worked since March 2020. Demand for domestic air travel is surging and the promising signs for 'travel bubbles' and vaccine development should see international travel resuming in 2021.

Support for Australia's aviation sector

Australia is home to three of the world's leading ground handling providers, and a small number of smaller local providers, who have for many years operated self-sufficiently, delivering the industry impressive gains in workplace productivity, safety and compliance, systems, technology, innovation, operating performance along with competition and investment.



A decimated air travel market in all corners of the globe means that local support will be critical to enabling the recovery of the local industry and therefore the Australian economy. There is the opportunity to not only prevent the slowing of aviation and economic and tourism sector recovery, but at the same time provide extensive job opportunities in both regional and metropolitan areas.

An outsourced industry

The outsourcing of airline ground handling is a common and growing occurrence at airports throughout the world. Outsourcing achieves many benefits for the sector, including providing competition, bringing specialist and world-leading expertise and systems, driving innovation, and improving efficiency through servicing multiple airlines at one airport location.

Jetstar announced in August a decision to outsource ground handling functions, and Qantas is currently reviewing the potential to fully outsource its handling to specialist providers to avoid the heavy capital requirements and to save costs. This brings the airline in line with other major airlines throughout the world and means there is the potential for an almost exclusive reliance on specialist providers for ground handling in Australia.

While this is good news for specialist ground handlers in the long-term, in the short-term it brings significant extra costs in staff training and reaccreditation along with major capital investment, at a time when most providers have already endured revenue cuts of up to 90 per cent for most of 2020.

There is now significant pressure on ground handlers – and their workforces, most of whom have not worked since March – to support the potentially dramatic and imminent rebound in domestic travel as state borders open.

With the largest number of personnel to recruit, train and accredit, the speed with which we can move is the key constraint to how quickly aviation can recover in this country. Relying solely on the resources of the ground handling sector to fund this process will see the recovering taking longer than the market demands.

Ground handlers help protect Australians from terrorists, illegal narcotics and organised crime, and help sustain the \$69 billion air transport industry, which directly and indirectly supports 716,000 jobs. Our industry is crucial in ensuring the overall economy can grow now that domestic borders are reopening and later as international travel restrictions are lifted.

What is aviation ground handling?

Aviation ground handlers provide a range of specialist services critical to the functioning of Australia’s aviation industry. Outsourced providers bring leading systems and expertise from around the globe, helping ensure Australia’s aviation sector is the best in the world.

The sector employs around 14,000 Australians, performing a range of functions including:

Aircraft handling	Passenger handling
1. Aircraft safety inspections before take-off	9. Operating passenger check-ins



2. Ensuring that baggage and cargo are weight-checked and distributed evenly, to confirm every aircraft is correctly balanced and safe to fly	10. Security assessment of passengers at check-in
3. Communicating with aircraft control towers	11. Identification of possible security, safety or terrorism threats by passengers
4. Managing all aircraft movement on the ground	12. Reconciliation of all passenger records with travellers on-board prior to take-off – for safety and terrorism reasons
5. Towing aircraft across live runways	13. Inflight catering
6. Ground engineering	14. Operating airline passenger lounges
7. Aircraft cleaning	15. Driving passenger buses across tarmacs and airport precincts
8. All baggage and cargo handling	

Please see below the AAGHIA’s response to “*The Future of Aviation: Flying to Recovery*” plan.

Part A: COVID-19 Response

1. COVID-19 Objective 1: Maintaining essential air connectivity

The financial impact of COVID-19 on the aviation ground handling industry has been extreme, with operators suffering revenue drops of as much as 90 per cent, while the fixed cost nature of the industry has meant their costs have remained high.

The Australian Government announced a \$1.3 billion ‘aviation’ support package, none of which has flowed through to aviation ground handlers, even though we are a critical segment of the industry.

Without aviation ground handlers, airlines cannot fly.

The Australian Government’s ‘aviation’ support package includes:

- \$715 million airline financial relief – rebating and waiving fees, taxes and fuel excise
- \$100 million Regional Airlines Funding Assistance
- \$352 million International Freight Assistance Mechanism.

Your paper says the Domestic Aviation Network Support (DANS) and Regional Airline Network Support (RANS) programs “cover the cost shortfall for losses incurred on key inter-city and regional regular public transport (RPT) routes without commercial passenger levels”.

However, none of the funding reached the aviation ground handling providers, without whom there is no aviation industry.

This oversight, while supporting airlines, neglects the increasingly perilous position of the ground handling industry that service them.



We therefore suggest extending the 'aviation' support package by \$100 million to the ground handling sector, to ensure the viability of the entire aviation industry, which is so critical for the Australian economic recovery.

2. COVID Objective 2: Preserving critical aviation capacity

Impacts:

The financial impact of COVID-19 on the aviation ground handling industry has been extreme, with operators suffering revenue drops of as much as 90 per cent, while the fixed cost nature of the industry has meant their costs have remained high.

While airlines have enjoyed \$1.3 billion in government support, they have declined to increase the rates they pay us, which were negotiated on a much larger scale of operations and therefore have very small margins.

Essentially this means we are unable to break even on the limited services we currently provide, particularly as our fixed costs are dispersed over fewer flights.

- I. Domestic airlines - the collapse of the Virgin Australia group, including Tigerair and Virgin Australia, left significant debts to our members as part of \$170 million owing to trade creditors. We are unlikely to ever see these bills paid.
- II. International airlines - most international carriers have ceased operations and there are significant outstanding invoices.
- III. Result - this has pushed many ground handlers to be under financial pressure, with substantial bad debt provisions.
- IV. Fixed costs - COVID-19 has also had a significant impact on aviation ground handlers because of the enormous fixed costs associated with our airport leases and cargo warehouses and specialised equipment including aircraft towing and loading equipment and inflight catering infrastructure.
- V. Workers - on the human resources side, annual leave and other labour costs continue to accrue for those employees who we have been able to retain.
- VI. Increasing losses - even when flights have occurred, aviation ground handlers have needed to outlay the cost of entire shifts for workers, even though they may have only serviced a single aircraft in one day. This means that the addition of a small number of flights has in some cases increased the losses to ground handlers, rather than reduced them.
- VII. Airlines' role - all carriers rely on AAGHIA members but are not willing to support costs. Suppliers are expected to wear all start-up expenses and asset investments and wear scale inefficiencies.



Put simply there is little point in airlines selling tickets to willing customers, and for the government to announce the lifting of cross-border travel in the lead-up to Christmas, if planes are unable to fly because aviation ground handlers cannot adequately resource the services with qualified personnel.

Airline decisions to increase outsourcing are driven by extreme pressure to cut costs and improve efficiency.

Scaling up from our current capacity to the capacity forecast for the Christmas 2020 period would normally take two years rather than the few weeks currently demanded.

Financial constraints on ground handlers means that the pathway to recover will be slower. Additional resources and support for recruiting, training and reaccrediting will enable a faster rebuild and resurgence in capacity.

Option for government:

- I. Targeted support is required to ensure Australia's aviation industry is not constrained by the depleted capacity of its critical resource suppliers. At the time of writing, aviation is still at less than 10 per cent of its pre-COVID capacity, with a dramatic upswing predicted for the coming months. We were the first industry hit, the hardest hit, and the longest hit, and without support some businesses will likely fail or the capacity will be constrained.
- II. Interest free loans to ground handling companies of up to \$300 million for 18 months, or until the aviation industry has returned to full capacity. Loans will be utilised for upfront investment in training, equipment and other start up expenses which must be financed months in advance of revenue being received.

3. COVID Objective 3: Maintaining supply lines for air freight exports and imports

'Air freight operations' involves more than airlines. Aviation ground handlers are critical to the continued operation of the freight sector.

However, as previously indicated, aviation ground handlers have been excluded from the Australian Government's aviation support package.

As a result, the ongoing revival of the international freight capacity cannot be guaranteed because many of the aviation ground handlers are under financial pressure and will struggle to provide the skilled workforces required to resource operations. This fact that has been conveyed to the highest levels of the Australian Government several times without success since April 2020.

We suggest extending the 'aviation' support package to critical parts of the aviation industry.

Part B: The Future of Aviation: The Government's Five-Year Plan

1. Reducing the Regulatory Burden:



We suggest focusing on the following five-points to safeguard safety, encourage efficiency, and lower unnecessary costs across the sector.

- I. Regulators need to recognise and adapt to the changing landscape of aviation ground services (increasingly outsourced) versus a structure that is based on self-handling. Currently, each airline has its own set of standard operating procedures and it is the airlines that are regulated. Ground handlers must be compliant with all these individual procedures which is add additional complexity and cost for all stakeholders.
- II. Aviation Security Identification Cards (ASIC) – speed will be critical in the issuing/reissuing/renewal of cards as operations ramp up. [There is currently a 6-12 week lag for the cards which are required for all staff.]
- III. Industrial Award simplification – the industry is volatile, and the industrial framework is rigid and does not meet the needs of the sector, resulting in poor outcomes for all stakeholders (i.e. inflexible, lower incomes, higher costs).
- IV. Reform the enterprise bargaining system – which is plagued by rigidities, complexities and timeframes that are diminishing innovation, flexibility and improved productivity. There is very little left in the spirit of enterprise bargaining in the way the Better Off Overall Test (BOOT) has been interpreted and applied by the Fair Work Commission.
- V. Review of state-by-state Labour Hire Licensing required - particularly regarding securing exemptions.

2. Targeted assistance: Aviation skills and workforce development

Staff:

Most aviation ground handling staff have not worked since March 2020.

Aviation has the highest standards of procedural compliance and training standards, owing to safety, anti-terrorism and national security needs. Due to the long period of negligible flight activity, almost the entire workforce of 15,000 personnel will need to be retrained and reaccredited to ensure safety standards are maintained for both domestic and international flights. This process will be considerably slower withing government support, and will constrain the recovery of aviation.

Training and certification courses for aviation ground handling staff are typically funded by airlines, who cannot currently fund them with their revenue down by 90 per cent. The decision to increase outsourcing is driven by the need to reduce financial pressure, cut costs and increase efficiency.

The table below provides a picture of the numbers requiring training in some key specialist areas and the cost associated with delivering this training.



	Personnel requiring recertification	Unit cost to deliver
Aircraft loadmaster / loading supervisors	1700	\$17,800
Specialist equipment operators (Airside Drivers Licence holders)	6,000	\$10,900
Other general aviation staff	7000	\$10,900

In addition, due to the significant attrition rate, there is a requirement to recruit and skill new staff at a faster than usual rate to meet what will be a relatively rapid resumption of flight capacity. There will be concerns and reluctance from new candidates about the stability of the aviation industry, especially when compared against less volatile alternatives.

Equipment:

Idle equipment will need be safety assessed and recommissioned as it has been dormant for an extended period to ensure injury and aircraft damage is prevented.

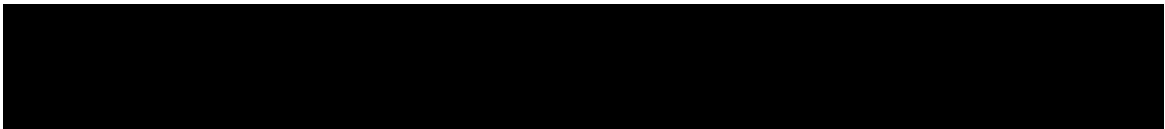
Suggested policy approach:

1. \$171.5 million (provided on a per person/accreditation basis) for the subsidised training of critical skilled workers including aircraft tow drivers, aircraft load controllers, aircraft movement coordinators, trainers, systems experts, aviation safety and compliance personnel, and leaders across the sector. Without these functions, airlines cannot fly.

The Australian Aviation Ground Handlers Industry Alliance (AAGHIA) wishes to work with government in the national interest, to ensure the Australian economy can grow strongly out of this crisis. But we are running out of time. We firmly believe that with your help, our sector has the potential to fully support the broader economy to accelerate out of this financial crisis.

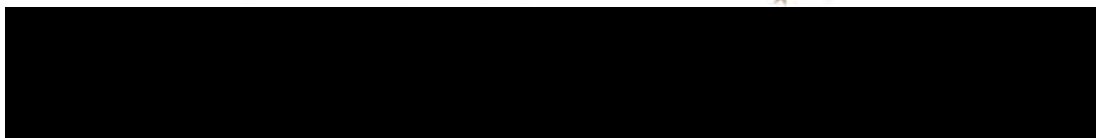
We request the opportunity to discuss the urgent needs of the sector at your earliest opportunity.

Yours sincerely



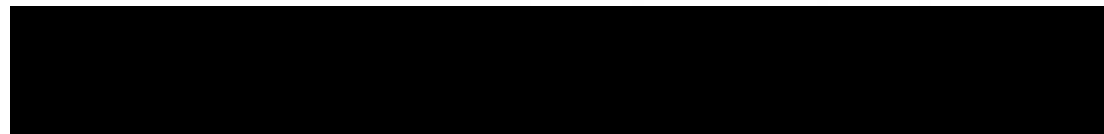
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