

SENATE SELECT COMMITTEE ON COVID-19 HEARING

24 SEPTEMBER 2020

MAIN BRIEF

INTERNATIONAL AVIATION NETWORK SUPPORT

Talking Points

- On 4 April 2020, the Deputy Prime Minister and Foreign Minister announced the Australian Government had committed to establish a critical network of international flights.
- For the first four weeks of operations [5 April – 7 May], the network operated 13 weekly return flights to four key hubs – London, Los Angeles, Auckland and Hong Kong
- The Government then extended a reduced network for a further four weeks [8 May – 8 June] to provide four weekly return flights to two hubs (two flights to London and two flights to Los Angeles).
- The funding committed to the network over the eight weeks was \$129.8 million, with total costs partially offset by the revenue received from the flights.
- The network provided a clear pathway for Australians impacted by COVID-19 to return home from abroad in a time of considerable uncertainty about the availability of flights.
- At the time the network was put in place, both Qantas and Virgin Australia had ceased all international flights and international aviation activity had fallen by over 90 per cent.
- Over the eight week period, the network carried 5,182 passengers.
- The network also boosted critical freight capability supporting Australian businesses to import and export goods and critical supplies.
- Over the eight week period, 1,546 tonnes of freight was moved on these flights.
- The international hub network concluded its operations in June 2020 noting other scheduled services now available on routes to London and Los Angeles.

[if asked] – why were these four hubs chosen

- The four hubs were chosen due to the high numbers of Australians living in those locations, their strategic value as major passenger hubs, high freight demand, geographic balance, and route familiarity for Australian airlines.
- After a review, flights to London and Los Angeles were extended given much stronger passenger and freight loads.
- The Hong Kong and Auckland services ceased after the initial four weeks due to lower passenger demand and the availability of commercial alternatives.

[if asked] – how were the airlines chosen

- The services were allocated between Qantas and Virgin following discussions with the airlines on their capacity and capability to provide the services.

[if asked] – ticket prices

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- The fares for inbound flights have fluctuated slightly over the course of the measure:
 - Los Angeles – \$680 - \$1,075
 - London: \$1,150 - \$1,445
 - Auckland: \$238- \$315
 - Hong Kong - \$624 - \$774

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Non-Scheduled Services

- Separately, the Government has facilitated a number of non-scheduled flights to destinations where no other commercial options were available.
- To date, this portfolio has facilitated 13 non-scheduled flights from India, South Africa and South America, repatriating over 2,400 citizens. Responsibility for any future facilitated flights rests with the Department of Foreign Affairs and Trade.

Program statistics – 2019-20 (Program completed on 8 June 2020)

Airline	Flights operated (return)	Total - Maximum contract value	Revenue	Paid (\$)	Pax [^]	Freight (kg)
Qantas network	47	\$114,884,236	\$10,411,386	\$102,649,363	3,714	1,160,122
Virgin network	15	\$9,040,764	\$2,995,349	\$5,706,604	1,468	386,153
Qantas charters	12	\$10,806,957	\$5,158,963	\$5,647,994	2,674	8,412
LATAM charter	1	\$219,368	\$0	\$219,368	147	0
Total	75	\$134,951,325*	\$18,565,698	\$114,223,329	8,003	1,554,687

*Note: total exceeds \$130 million because maximum contract value is offset by revenue received.

[^] Inbound and outbound passengers

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Key Issues

- Between 5 April and 8 June 2020 the network and ad-hoc flights have carried 8,003 passengers (inbound and outbound), 1,554 tonnes of freight and generated \$18.5 million in revenue.
- The flights from London and Los Angeles achieved the strongest passenger and freight loads.
- The Hong Kong and Auckland services ceased after the initial four weeks due to lower passenger demand and the availability of commercial alternatives.

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- When established, it was agreed that the network would be reviewed within the first three weeks of operation. In order to support the review, airlines were required to provide weekly statistics on passenger loads, forward bookings and freight loads and composition.
- The high per passenger cost of delivering the network reflects the challenges and uncertainties of operating international services in the COVID-19 environment as well as the lack of economies of scale from operating a 'bare minimum' network (the costs per flight are higher to keep a reduced fleet in the air compared to normal operations).

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- The ability to generate offsetting revenue has also been limited by:
 - Airlines implementing social distancing rules for their flights, limiting saleable capacity in some cases to 50 per cent of total seats. As a rule of thumb, in pre-COVID conditions airlines typically aim for a load factor of around 80 per cent for a route to be commercially viable.

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- Increasing competition from foreign airlines continuing to operate on the same routes.

Procurement Process

- Services were procured from Qantas and Virgin Australia to provide these networks.
- Routes for each were published on:
 - Qantas – <https://www.qantas.com/au/en/travel-info/travel-updates/coronavirus/qantas-international-network-changes/additional-services.html>
 - Virgin Australia - <https://travel.virginaustralia.com/au/minimal-network-schedule>
- The procurement occurred via a limited tender under the Commonwealth Procurement Rules having regard for two conditions:
 - Section 10.3 b when, for reasons of extreme urgency brought about by events unforeseen by the relevant entity, the goods and services could not be obtained in time under open tender.
 - Section 10.3 b iii when the goods and services can only be supplied by a particular business and there is no reasonable alternative or substitute due to an absence of competition for technical reasons.

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- Due to COVID-19, the Australian Government established significant entry and exit restrictions. As a result of these restrictions, international aviation activity dropped by over 90 per cent within a week, including Qantas and Virgin Australia ceasing all international services.
- This led to an urgent and unforeseen need to support Australia's international aviation network.
- There was a clear need for a minimum effective international aviation network to ensure Australians seeking to return home were able to do so.
- Qantas and Virgin were the only two airlines in Australia with the capability and technical capacity to meet the requirements of the procurement with the appropriate regulatory approvals, assets, and personnel.
- In terms of value for money and an appropriate use of public resources as assessed against the Commonwealth Procurement Rules as the services being provided by Qantas and Virgin:
 - offered immediate capacity to recommence flights across the international network;
 - supported the repatriation of Australian citizens and long term residents;
 - Section 4.2(e) by taking into consideration relevant Commonwealth policies, namely supporting competitive aviation sector;
 - Section 4.4(a) encourages competition and be non-discriminating, which was met through discussions with Qantas and Virgin Australia on their capacity and capability of providing these services; and
 - supports the broader economy through the continuation of the movement of people and goods (freight) (a requirement under Section 4.7).
- Qantas and Virgin were the only two airlines in Australia with the capability and technical capacity to meet the requirements of the procurement with the appropriate regulatory approvals, assets, and personnel.
- Procurement information is available on AusTender at www.tenders.gov.au under reference numbers Qantas – CN3674325 and CN 3681693 and Virgin CN 3683778 and CN 3674324.

Background

On 3 April 2020, the Government established a continuing network of flights to four key international hubs – London, Los Angeles, Hong Kong and Auckland – to help Australians get home.

The primary objective of the network was to repatriate stranded Australians impacted by COVID-19. Other key objectives including boosting critical freight capability, assisting the Australian aviation industry, providing symbolic value in operating international services, establishing the critical network quickly, and achieving value for money.

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In line with the policy objective of supporting the Australian aviation industry and given the short time frames, only Qantas and Virgin were approached to provide these services.

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Attachment

- A – commercial alternatives to the second hub network

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Attachment A

COMMERCIAL ALTERNATIVES TO LONDON AND LOS ANGELES SERVICES (AS SCHEDULED FOR 20-26 SEPTEMBER 2020)

Destination	Airline	Route	Services
London*	Cathay Pacific	Hong Kong-Sydney	5
	Cathay Pacific	Hong Kong-Perth	2
	Emirates	Dubai-Brisbane	2
	Emirates	Dubai-Perth	2
	Emirates	Dubai-Sydney	4
	Etihad	Abu Dhabi-Sydney	5
	Qatar Airways	Doha-Adelaide	2
	Qatar Airways	Doha-Brisbane	3
	Qatar Airways	Doha-Perth	4
	Qatar Airways	Doha-Sydney	7
	Singapore Airlines	Singapore-Adelaide	2
	Singapore Airlines	Singapore-Perth	3
	Singapore Airlines	Singapore-Sydney	5
Los Angeles	United Airlines	San Francisco-Sydney	7
	United Airlines	Los Angeles-Sydney	3
	Delta Air Lines	Los Angeles-Sydney	3

*Note – some of these airlines could also fly to the east coast of the United States increasing transit options from the United States to Australia. For example, one could fly New York-Hong Kong-Sydney on Cathay Pacific.

INTERNATIONAL PASSENGER ARRIVAL CAPS

Talking Points

- Quarantine arrangements for international arrivals remains one of the most effective measures to protect against the spread of COVID-19 in our community.
- State and Territory Governments requested caps on international passenger arrivals to help manage their quarantine systems.
- Caps are enacted by this Department under the Air Navigation Regulations 2016. The Department sets limits on the number of incoming passengers an airline can bring in on any given flight.
- The following capacity restrictions currently apply:
 - The suspension of international flights into Melbourne will continue.
 - Sydney – limit of 350 passenger arrivals per day;
 - Perth – limit of 525 passenger arrivals per week;
 - Brisbane – limit of 500 passenger arrivals per week;
 - Adelaide – limit of 500 passenger arrivals per week;
 - Canberra, Darwin – passenger limits on each flight to be discussed with jurisdictions on a case-by-case basis;
 - Hobart – no international flights.
- The Department is working cooperatively with airlines to help manage passenger loads as flexibly and fairly as possible within the overall daily caps.
- On 18 September 2020 National Cabinet agreed to increase the caps as follows:
 - Sydney – additional 500 passenger arrivals per week from 28 September;
 - Adelaide – additional 100 passenger arrivals per week from 28 September;
 - Brisbane – additional 200 passenger arrivals per week from 28 September and a further additional 300 passenger arrivals per week from 5 October
 - Perth – additional 200 passenger arrivals per week from 28 September and a further additional 300 passengers from 12 October;
 - Tasmania, the Northern Territory and the Australian Capital Territory will be used for the facilitation of special commercial services subject to available quarantine capacity in those jurisdictions.

[If asked] – how did you determine the capacity limits

- The international passenger arrival caps are based on advice from the States and Territories on their available quarantine capacity.
- The level of quarantine capacity in each jurisdiction is based on a number of factors, including availability of accommodation, police, health, transport and security resources.
- Further questions on quarantine capacity are a matter for States and Territories.
- The DPM wrote to first Ministers on 16th September proposing an increase in passenger caps on the basis of the urgent need to bring more Australians home on the improvement of the COVID-19 situation in Australia.

[If asked] – impact on returning Australians

- We appreciate the caps can create some concerns and inconvenience.
- Travellers planning to return to Australia should contact their airline or travel agent as soon as possible for information on any changes to their flights.

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- The Department of Foreign Affairs continues to assist Australians overseas through Australia's network of embassies, consulates and high commissions.

[If asked] – *airlines prioritising business class passengers*

- It is ultimately a matter for each airline to determine which passengers are boarded on flight in accordance with the cap arrangements and airfares on individual flights.

[If asked] – *reports of unethical behaviour of airlines pushing passengers to having their economy class tickets cancelled and pressured to get business class tickets to return home*

- The ACCC is the Australian Government agency responsible for protecting consumers. The Department will provide any assistance to the ACCC as required.

[If asked] – *impact on airlines and airports*

- We can appreciate low inbound passenger loads are having an impact on airlines and airports, who are already being challenged from reduced aviation activity.
- So far we have received very few cancellations following the introduction of the caps, with freight and outbound passengers helping to sustain these services.

[If asked] – *review of passenger caps*

- On 4 September, National Cabinet conducted its fortnightly review of international air arrival passenger caps and agreed to increase the capacity for international arrivals, where possible, supporting more Australians to come home from overseas.

[If asked] – *exemptions and increases above the passenger caps*

- The following categories of passengers are not included in the limits:
 - air crew;
 - infants (less than 2 years old); unaccompanied minors (less than 18 years old);
 - foreign diplomats and their dependants;
 - persons transiting Australia to a third country, provided those passengers have the necessary transit exemptions and remain airside for the duration of their transit (which must be less than 8 hours); and
 - Australian Government officials and dependants exempt from mandatory quarantine at a government-operated facility.
- Requests from airlines for additional seats on individual flights (including to carry passengers on companionate or medical grounds) above the cap are considered on a case-by-case basis, subject to overall quarantine capacity in the State of arrival, noting the availability of such seats is limited.

[If asked] – *airlines underutilising the caps*

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- Data provided by the Australian Border Force over the past month shows available quarantine capacity is virtually being fully utilised at the three major international airports, Sydney, Brisbane and Perth receiving inbound passengers. Adelaide has temporarily fallen below 50 percent due to a loss of State quarantine capacity but SA has committed to increase capacity above the current cap.

Key Issues

- The Department has enacted passenger caps on each flight coming into Australia under the Air Navigation Regulations 2016.
- The action has been taken in the public interest and based on advice from States and Territories on their available quarantine capacity. The quarantine capacity is limited by the availability of accommodation, health, police, transport and security resources.
- These resources have become increasingly strained due to the need to divert resources to help manage the domestic COVID-19 situation.
- The method of allocating capacity seeks to maximise utilisation of capacity within the daily or weekly limits, whilst retaining flexibility to work with exemption requests and proposals for additional, ad-hoc services.
- To date, we have received over 200 requests from airlines to work flexibly within the total daily caps. We have only denied requests where daily/weekly caps would have been exceeded and the jurisdiction has indicated they are unable to take on additional capacity.
- For the period 22 July 2020 to 7 September 2020, we have received 43 service cancellation requests which equates to about 6 per cent of the total scheduled services over this period.
- Contrary to some media reports, airlines are utilisation of capacity is near 100 per cent, except for Adelaide where SA Government officials have advised they not currently able to serve the 500 passenger per week cap due to resources being diverted to domestic quarantine and related activities, so just four services operate a total of 240 passenger

Arrivals – 17 Aug – 13 Sep 2020

AIRPORT	CAP LIMIT TOTAL	PAX ARRIVAL TOTAL	% of CAP utilised
NSW - SYD	9800	9401	96%
QLD - BRIS	2000	1931	97%
WA- PER	2100	2038	97%
SA - ADL	2000 (960)	893	45% (93%)

Background

On 2 July 2020, a cap was put in place at Melbourne Airport that meant no passenger arrivals were allowed for any of the scheduled airlines arriving into Melbourne.

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The suspension of international arrivals into Melbourne had a cascading effect, resulting in unsustainable strain on the quarantine measures and accommodation resources that are in place for international arrivals in other jurisdictions.

From 4 July 2020, a cap of 450 passengers per day was in place at Sydney until 19 July 2020 – which was subsequently reduced to 350 passengers per day from 20 July 2020.

On 10 July 2020, National Cabinet agreed to implement further caps on international arrivals, to manage and maintain quarantine arrangements across the jurisdictions of New South Wales, Victoria, Queensland and Western Australia, and an extension of current international passenger flight restrictions into Victoria. From 13 July 2020, a national framework took effect.

On 7 August 2020, National Cabinet agreed that existing caps on international passenger arrivals would continue until 24 October in order to manage and maintain quarantine arrangements across all jurisdictions, subject to further advice on quarantine capacity,

On 18 September 2020, National Cabinet agreed to an increase in the total number of passenger arrivals allowed under the caps in a staged approach commencing from Monday 28 September 2020. The increases involve an additional 500 passengers a week from Sydney, Brisbane and Perth and 100 passengers from Adelaide. The National cabinet is agreed to use of Canberra, Darwin and Hobart subject to available quarantine capacity for special commercial services.

These measures continue to be vital to maintain the integrity of Australia's hotel quarantine system, which is a critical intervention in managing the spread of COVID-19.

The Prime Minister also flagged in his media conference after National Cabinet on 18 September 2020 the Government was continuing to work on a potential One Way Special Travel Zone from New Zealand to Australia to enable Australians and New Zealanders to return to Australia from New Zealand without quarantine.

This would be subject to passengers having spent their last 14 days in New Zealand in an area that was not a NZ hot spot for COVID-19. It will also be subject to individual jurisdiction agreement in Australia. Based on Air New Zealand's (the only airline currently flying to New Zealand and operating from Auckland) current timetable this would free up about 265 seats under the caps a week that could be used by other airlines flying to Sydney and a 125 seats to Brisbane.