

# Submission in Response to the Aviation Green Paper

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***This submission was made for the public record and is therefore NOT confidential***

Given our ongoing research work on the future of regional airports in Australia and the challenges that are presenting themselves to their (largely) local government owners, we limit ourselves to responding to Section 4 of the Green Paper: “Regional and remote aviation services”. Although our work is mainly confined to regional rather than remote Australia, many of the issues hold true in both sets of circumstances.

**1. The importance of aviation to regional Australia is acknowledged, but the means to support these vital services requires greater attention.** Airports are indisputably crucial gateways to nations and regions and play an essential role in the economy, as p. 64 of the Green Paper points out. It is indisputable that airports significantly contribute to Australia’s GDP, and enable economic growth in the airport’s immediate regional catchment area by stimulating tourism and other economic activity.

Equally important is the impact of airports on the social welfare of their host communities. In regional Australia, airports and airlines provide essential services, such as connectivity to health services in metropolitan areas for otherwise isolated communities. In contrast, regular passenger transport (RPT) services are required to connect those communities with each other and with larger cities, and the world by extension.

Although public authorities generally recognise regional airports as vital assets, many of these airports reportedly struggle to operate on a profit or even break even. Some of these airports thus have trouble remaining operational. It has been estimated on several occasions that somewhere between 40 and 50 per cent of regional airports operate at an annual loss.<sup>1</sup> In many cases, the recent pandemic has exacerbated these issues.

**2. There is a need to further acknowledge the burden of regional airport ownership and operation on local governments.** Section 4 of the Green Paper highlights a number of issues and topics that are potentially relevant to aviation in regional Australia in a broad sense. However, there is very little consideration of the basic infrastructure requirements that are necessary for aviation to continue in regional Australia.

On p. 65, the Green Paper notes, correctly, that “The vast majority of regional airports are now owned by local councils, many of which struggle to finance their ongoing maintenance”. This statement, however, fails to acknowledge the history behind this state of affairs.

Originally, most regional airports in Australia were also owned by the Commonwealth. As owner and operator, the federal government shouldered the primary financial burden associated with operating those airports. However, efforts were initiated to shift the control of these airports to local authorities through initiatives like the Aerodrome Local Ownership Plan

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<sup>1</sup> ACIL Allen Consulting (2016) Regional Airport Infrastructure Study, Treasury website; AAA (2012), Australia’s Regional Airports: Facts, Myths and Challenges. Australian Airports Association. Available at: <https://airports.asn.au/wp-content/uploads/2018/02/Australias-Regional-Airport-Facts-Myths-and-Challenges.pdf>

(ALOP). Under ALOP, regional airports were to be transferred into local ownership. While ALOP provided for financial support from the federal government, the Commonwealth eventually withdrew from the program in the mid-1990s, which ultimately left local governments with the complete control, financial responsibilities – and burden – associated with operating their local airports. Today, more than 350 airports and airfields in Australia are owned and operated by local government entities.

The overarching policy goal of ALOP was to sustain the national and local air transport system through government ownership at various jurisdictional levels. Yet, this meant that the government, regardless of the jurisdiction, still had to cover expenses for the upkeep of regional airports. At the time when the full transfer of regional airports from federal to local hands was contemplated, it was estimated that only 55 percent of the operating and maintenance costs would be recouped through fees and charges in most cases. In more recent years, regional airports reportedly faced, on average, a 6 percent funding gap in 2014/2015, with a 3.4 percent gap for RPT airports, and a significantly higher 45.6 percent gap for non-RPT airports. Overall, 61 percent of regional airports experience budget deficits, while projected expenditures for these airports are expected to increase by 38 percent over the next decade.<sup>2</sup>

For regional airport owners, i.e., councils, only limited financial assistance is available. *Such airports are generally funded through their operational proceeds, with their local government owners making up any shortfalls through subsidies.* This, of course, has implications for the ability of local governments to finance other activities that are expected of them, despite their relative inability to secure new revenue sources.

**3. The focus on climate resilience and new opportunities is commendable, but infrastructure maintenance and improvement must be prioritised.** Section 4 of the Green Paper devotes a good deal of space to the potential of regional airports to contribute to achieving net zero carbon emissions, and the ways in which different energy sources could contribute to regional aviation. Such musings, however, will be largely pointless if many regional airports fail to be upgraded or enhanced owing to the federal government's belief that its "primary consideration" with respect to aviation "is the safety and security of air services" (p. 64), rather than assisting regional airports to continue remaining operational.

Particularly curious is the strong focus on decarbonisation rather than maintaining the continued operability of regional airports, especially when the very first key issue identified regarding regional and remote airports clearly states that "smaller population centres in regional Australia are *not commercially viable* markets for regular passenger transport air services by commercial aircraft operators, *nor do they generate significant revenue for airports*" (p. 69). This situation obviously puts into question the very survival of many of these airports.

Such infrastructure upgrades may include developments to enable electric commercial and general aviation and investments in infrastructure such as runways and aprons to accommodate larger (and potentially heavier) aircraft types, together with new passenger facilities to cater to increased traffic to and from regional centres. The advances in the Advanced Air Mobility (AAM) industry also raise additional infrastructure concerns relating to the implementation of vertiports and support infrastructure in regional airports to take advantage of passenger, freight, and emergency services operations.

Another airport infrastructure issue that is likely to manifest itself, as noted on p. 70 of the Green Paper, is the need for regional airports to become more resilient in the face of anthropogenic climate change. The Green Paper notes that \$1 billion over five years will be made available through the Disaster Ready Fund (DRF) to enhance "disaster resilience and risk

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<sup>2</sup> ACIL Allen Consulting (2016) Regional Airport Infrastructure Study, Treasury website.

reduction projects". Yet airport owners seeking to enhance the resilience of their airports will need to compete with large numbers of other projects, as they currently do for similar infrastructure and service improvement schemes.

At present, projects relating to regional airports must compete with all manner of other projects across Australia for federal funding. If regional airports are indeed as vital as most authorities think, *sufficient funding needs to be earmarked for airport-centric maintenance and improvement projects* given that local government airport owners will be unable to carry out these required works.

**4. Funding available to assist regional airports is largely limited to maintenance rather than strategic enhancement.** As noted above, there are a number of schemes available that can assist regional airports with meeting the costs required to maintain their operations, such as the Regional Airports Program mentioned on p. 66. These schemes, however, generally relate to maintenance programmes or upgrading the infrastructure to meet regulatory standards required for RTP flights to continue, such as those imposed by CASA or Air Services Australia.

The emphasis on funding for maintenance or regulatory compliance, as is outlined on p. 66 of the Green Paper, means that funding is not available for more strategic initiatives. For example, a local council might wish to attract more tourists or export more freight to achieve improved economic outcomes for the host region. This, however, could be contingent on lengthening a runway or expanding related facilities to enable larger and longer-range aircraft to use the airport. Local governments, on their own, are generally not in a position to finance this sort of strategic work to the airport given the multiplicity of other public services that they are expected to provide.

The current state of play means that many regions are unable to pursue new markets or aviation-dependent revenue streams through the augmentation of their aviation infrastructure. In some cases, there may be the option of exploring the avenue of privatisation, especially if the airport is likely to achieve organic growth through increased patronage and usage; but, for other airports that might not be as attractive to private investors, there is *a dearth of discussion about alternative business models or governance arrangements that could assist many Australian regions to pursue transformative change.*

Of course, not all local governments are equal in the resources they command, while all regional airports are not equal in terms of their location and attractiveness for increased passenger and freight operations.

**5. The privatisation alternative requires considerable thought regarding its potential implications.** The Green Paper states that "Privatisation of LFAs has proven successful in delivering substantial public investment in aviation infrastructure over the past 30 years" (p. 65). Yet the Green Paper acknowledges that "the market-driven approach to delivering aviation can only function where it is profitable for private investors to participate", which prompts the question of whether "governments" need "to consider whether to support infrastructure investment to help facilitate air services to regional and remote communities".

Long-term leasing has generally been the preferred vehicle to achieve privatisation in Australia. This began with the privatisation of the Commonwealth airports under the Airports Act (mainly the capital city airports and some of the larger regional airports) and has recently been extended to the privatisation of Sunshine Coast Airport and Coffs Harbour Airport. This raises the question of whether the concept of privatising such infrastructure through long-term leasing arrangements is always going to be desirable for the local government owners of regional airports, as well as important stakeholders.

Questions that need to be answered include:

- To what extent could privatisation be an alternative strategy for financing regional airport operations to avoid further reliance on local government cross-subsidisation and external grants?
- Is the private sector genuinely better equipped to handle regional airports in more profitable ways by approaching them as assets that can be used for a variety of commercial purposes, rather than simply as infrastructures providing mainly social benefits?
- To what extent could privatisation compromise the public interest of communities and, if so, what measures should be taken to avoid this?

Whatever the case, *finding innovative solutions to regional airport governance is essential* to bridge the gap between aspirations for a thriving aviation sector in regional Australia and the pressing financial needs of most regional airports and their host local governments areas.

**6. Alternative business and governance models need to be considered beyond long-term leasing arrangements.** The statements made on p. 65 of the Green Paper suggest that a) privatisation of the asset should be seen as always preferable if private investment can be achieved; and that b), in cases where privatisation is not possible, the operational burden must inevitably fall to “governments”, which, in this case, refers to cash-strapped local governments. This requires further debate.

Indeed, it may be preferable to consider a range of business models and governance arrangements that move beyond the simple dichotomy of a) long-term leasing of 100% of the asset by the private sector or b) “governments” struggling to keep a local-council-operated airport operational.

Indeed, while the Sunshine Coast Council did pursue a long-term leasing arrangement with a private sector entity, it was able to negotiate a 5% cut of gross revenue of future operations. In effect, this makes the local government owner a *minor partner* in the ongoing operation of the airport. This clearly differs from the role of the Commonwealth under the Airports Act, where it occupies what could be termed a largely *stewardship role*, that is, providing strategic oversight of decisions relating to the airport and airport land.

In short, we have already seen variation on the long-term leasing arrangements pursued by the Commonwealth in the context of regional airports. It remains to be seen what other business models or governance arrangements should be pursued.

Thus, privatisation of all of a regional airport asset using a long-term leasing mechanism might be viewed on a *spectrum of ownership and governance models*, with outright sale of the asset to the private sector on one end of the spectrum, and continued local government ownership and operation of the asset without any serious efforts at commercialisation at the other extreme. Other positions along that spectrum might be deemed preferable by local government owners and key airport stakeholders for individual airports in regional Australia, such as initiating a high degree of commercialisation. But, even in those cases, the profits realised from commercialisation might still be insufficient for the airport to meet its operating and maintenance costs.

**7. Regional connectivity must be regarded as a public value, and only the Commonwealth has the ability to safeguard it adequately.** Despite the federal government’s aforementioned belief that its “primary consideration” with respect to aviation “is the safety and

security of air services” (p. 64), it is becoming clear that regional connectivity is at risk without greater federal government attention.

The transfer of ownership and thus operational costs from the federal government to local jurisdictions has made the public value of regional connectivity increasingly precarious, which has enormous implications for Australians living beyond metropolitan or per-urban areas. This cost-shifting has meant that regional connectivity, today, is no better than it was decades ago – in fact, the Green Paper (p. 71) itself draws attention to the fact that regional connectivity through aviation has worsened, with some locations (for example, Lismore and Grafton) no longer being served by RTP flights.

The quality of regional airports clearly lies at the core of these issues. Although exploring alternative business models and governance arrangements might be a significant part of the equation, the Commonwealth needs to understand that it remains *the best-placed actor to safeguard the continuation of affordable regional connectivity in Australia.*