



17 March 2020

The Hon Michael McCormack MP
Minister for Infrastructure, Transport and Regional Development
Leader of The Nationals
Federal Member for Riverina

By Email: michael.mccormack.mp@aph.gov.au

Dear Deputy Prime Minister,

IMPACT OF COVID-19 VIRUS ON REGIONAL AVIATION

I am writing to you on behalf of the regional aviation industry in Australia to outline the disastrous effects the COVID-19 virus pandemic is having on regional aviation and to suggest some measures that can be taken to try and prevent the worst of the damage. I appreciate that the Government is being overwhelmed at this time with the economic fallout from the pandemic but I know you have a genuine interest in the essential regional services provided by our industry and which we urgently need to preserve for the future.

The overall effect on airlines has been well documented with the larger operators publicly announcing major cutbacks as a result of significant falls in passenger demand. The regional operators did not see this drop initially but in the last week we have seen dramatic falls in demand with forward bookings typically falling by as much as 80% and the trend showing no signs of stabilising. Smaller regional airlines operate on minimal margins, are exposed to borrowings and have high overheads in the form of aircraft leases. The drop in demand means that many will not survive more than a few weeks without some form of relief.

Charter operators are similarly affected including those servicing the FIFO industry where some members are reporting the cancellation of contracts as mining companies pursue their own strategies to minimise the effects of the virus. Flights to remote communities have been suspended due to the risks of introducing the virus into indigenous populations and operators in the tourism sector are particularly hard hit where demand is now non-existent and fleets have been grounded.

Flying schools are experiencing a drop in demand from overseas students not able or not willing to travel to Australia, especially from China. Local student numbers have also diminished as many put off training and practice self-isolation. Inquiries about flying training have stopped completely.

Training centres are seeing a significant downturn as overseas pilots have their simulator type rating and recurrency training cancelled or are experiencing difficulties with the very necessary restrictions on travel from overseas. This will be further exacerbated as domestic training declines due to airline cutbacks and eventual layoffs.

The scale of the crisis is such that damage to the industry cannot be avoided but we feel some initiatives can be put in place to provide a measure of damage control and assist businesses to stay afloat until the crisis is over rather than just let them fail. Once we lose regional operators and flying schools we will not necessarily get them all back nor will they be replaced. The barriers of entry into the industry for small airlines, charter operators and flying schools are now such that we have seen very few start-ups in the past two decades.

In the case of regional airlines the effect of losing smaller operators that are not replaced would mean that only carriers with large regional aircraft like QantasLink would be left serving the regions. As a result many smaller regional centres would lose their air services permanently. In the same way the flying training industry would become dominated by the larger schools, often now foreign owned, that have been set up to service international pilot demand and we would lose many of the smaller privately owned schools that have been providing pilots to GA in Australia for many years.

The RAAA suggests that the following initiatives be considered by Government to assist as many regional operators as possible to survive the pandemic and thereby provide a basis on which to rebuild the industry once the crisis has passed:

1. **Waive Airservices Australia En Route, Terminal Navigation and ARFF charges for 6 months:** The RAAA joins other airlines in calling for this measure in order to provide some relief. Precedent exists in the form of the En Route Scheme instituted by the Government for regional airlines following the Ansett collapse. This will also assist flying schools where Airservices charges can be a high proportion of costs.
2. **Waive Bureau of Meteorology charges for at least 6 months:** As above, this will provide some financial relief.
3. **Waive the CASA fuel excise for 6 months:** It is suggested that this be by way of special appropriation for this period. The proportion of CASA funding provided by the fuel levy falls predominantly on domestic and regional operators and this would provide some relief.
4. **Waive CASA Regulatory Service Charges for 6 months:** These are a small part of the CASA budget and could also be replaced by special appropriation. This would be very significant for smaller businesses and flying schools that will incur extra service costs from CASA due to staff changes involved with downsizing and then rebuilding at a later date.
5. **Prevent security charges being levied on smaller operators at regional airports:** Some regional airports levy security charges on airlines with smaller aircraft that are not required by law to have passenger screening. This will increase as the new security rules come into effect and is an unnecessary impost on regional aviation.
6. **Delay the introduction of new cargo screening requirements:** With the public choosing more and more to isolate themselves we are foreseeing an increase in overnight delivery services. The overnight freight industry is already struggling with the cost and practicalities of introducing the new screening equipment which will be made worse by any increase in volume. A moratorium is called for regarding the implementation of these new rules until the effects of the pandemic are past.

7. **Suspension of business loan repayments for 6 months:** This could be arranged with the large banks. Many small aviation businesses rely on funding from commercial lenders and it would help to weather the storm if payments could be suspended for a period. Obviously they would be picked up with associated interest payments once the suspension had ended.
8. **Provide tax relief including a delay on PAYG payments and payroll tax relief for 6 months:** In conjunction with State Governments these measures could provide some temporary relief.
9. **Institute a temporary Chapter 11 style mechanism that would allow small businesses to enter into a technical bankruptcy without having to go into administration or be shut down:** This may be challenging but it is vital to keep smaller businesses operating so they can weather the storm. Much expertise will be lost if these businesses go to the wall. As an example the average age of LAMEs in GA, including flying schools, is approaching 60. If these engineers are laid off many will retire and be lost prematurely to the industry. We need to retain this type of expertise in order to be able to rebuild our industry once the crisis has passed.
10. **Extend the Regional Air Services Subsidy (RASS) scheme to all regional air services up to a certain size:** This may be a straight forward mechanism that allows some temporary relief.

The situation is critical for regional aviation and the flying training industry and extreme measures are called for if we wish to salvage as many businesses as possible. Cash flow will be critical in the next few weeks in the face of fast dwindling or non-existent revenue. This has been severely exacerbated by the current historically low USD exchange rate given that many aviation expenses are in USD.

We are happy to discuss any of these measure with you and to work with Government to try and achieve the best possible outcome for regional aviation and the flying training industry as we weather this extreme crisis. Action needs to be taken immediately before it is too late.

Yours sincerely,



Jim Davis
Chairman
Regional Aviation Association of Australia