



# Airline Views

March 2020

## 1 Cost and efficiency – managing the current downturn



**COVID-19 and travel restrictions are severely disrupting air traffic, with airlines experiencing serious declines in demand.**

International airlines are implementing a range of requirements in Australia and overseas as requested by the Australian and overseas governments.

To support the commercial viability of international flights, suppliers need to reduce airline costs and better support industry efficiency.

The airport operators need to be proactive in their commercial response to this difficult time for international aviation.

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## 2 IATA requests global suspension of slot rules



**The International Air Transport Association (IATA) is requesting that airport slot use rules be suspended immediately and for the 2020 season.**

Around 43% of all passengers depart from over 200 slot coordinated airports worldwide. The rules for slot allocation mean that airlines must operate at least 80% of their allocated slots under normal circumstances.

Suspending the requirement for the entire season (to October 2020) will mean that airlines can respond to market conditions with appropriate capacity levels, avoiding any need to run empty services.

## 3 Adelaide Airport jet fuel supply



**Adelaide Airport and German based Skytanking Holding GmbH (Skytanking) have announced their partnership in aviation fuelling services.**

Skytanking has a presence in over 80 airports globally and does not market or sell jet fuel to airlines. Skytanking has met with BARA on numerous occasions to explain how it can add value to Australia's jet fuel infrastructure supply chains.

BARA supports progressive arrangements that underpin the reliable and competitive supply of jet fuel together with reasonable cost recovery.

## 4 Long range air traffic flow management



**Long range air traffic flow management offers the benefit of a more strategic approach to sequencing aircraft arrivals.**

It allows the strategic management of aircraft arrivals to start some four hours before their expected landing time.

Implementation is planned for Sydney, Melbourne, Brisbane and Perth airports later this year. Given the current levels of congestion and relatively low on time performance for international flights, the benefits should be greatest at Sydney and Melbourne airports.

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## Cost and efficiency – managing the current downturn

After a decade of unprecedented growth in international flights and passengers, COVID-19 and resulting travel restrictions appear to be exceeding previous industry shocks, such as SARS. To best help international airlines and the industry generally, suppliers to the industry need to review their existing pricing practices and focus efforts on improving the productivity of airline operations. They should be doing this proactively rather than waiting for requests from international airlines.

### Initial impact assessment

An initial impact assessment by the International Air Transport Association (IATA) notes that if the COVID-19 impact has a 'SARS-shaped' profile, this implies:

- a 13% loss of revenue passenger kilometres (RPKs) in 2020 for Asia-Pacific airlines; and
- a 4.7% loss to industry-wide RPKs in 2020 and a US\$29bn loss of passenger revenues.

IATA's assessment is available at

[www.iata.org/en/iata-repository/publications/economic-reports/coronavirus-initial-impact-assessment/](http://www.iata.org/en/iata-repository/publications/economic-reports/coronavirus-initial-impact-assessment/).

The assessment will be updated as the situation evolves, and further information becomes available to industry participants.

## Aviation infrastructure supplier pricing practices

Australia's aviation infrastructure, including its airports, air navigation services and jet fuel supply chains, represents a crucial component of Australia's aviation industry. Substantial scope exists to improve its cost-efficiency and quality so it can better support increasingly efficient, safe aircraft operations for international flights. These improvements are urgently necessary.

Australia's international airports are very profitable, largely driven by the growth and diversity of Australia's international aviation industry. At the same time, international airlines have had to make do with substandard airport services that reduce their operating efficiency.

On pricing, each airport operator should be reviewing its existing pricing in place for international flights. Issues for consideration to assist international flights include:

1. choosing not to increase passenger-based charges on 1 July 2020 under existing agreements for airfield and terminal services;
2. maintaining existing 'cost-pass through' prices for security services, rather than increase them based on anticipated lower passenger volumes from 1 July 2020;
3. reducing prices for landing and terminal services from 1 July 2020 for new agreements being developed; and
4. reducing fixed costs charged to airlines, such as staff office rents, in line with the reduction in passenger volumes.

On the issue of airport operator profitability and scope for price reductions, BARA notes the Australian Competition and Consumer Commission's (ACCC) 2018–19 *Airport Monitoring Report* found Sydney Airport's return on aeronautical assets at 12.5% was the highest reported by the airport since the monitoring



regime began some 17 years ago.<sup>1</sup> It was also well above the other monitored airports. Airlines usually have far less room to absorb airfare reductions on international flights in lower profits as, on average, they have not achieved acceptable rates of return to date.

Given the ACCC afforded Sydney Airport a lower asset beta for rate of return calculations than Melbourne, Brisbane and Perth airports as part of the previous prices surveillance arrangements, it should be expected that Sydney Airport has a lower rate of return on aeronautical assets compared with these airports. As such, price reductions for international flights are justified already without consideration of COVID-19.

IATA has also written to Airservices Australia, requesting it reduces charges, or at the very least defer any increases. BARA appreciates IATA's efforts to seek cost reductions across suppliers to international aviation in Australia and overseas.

### Improving industry efficiency

Australia's international aviation industry does not rank well for on time performance and mishandled baggage. Problems in these key areas for performance metrics reduce the quality of the passenger experience and increase the operating costs for international flights.

BARA estimates the achievable improvements in international on time departure performance would generate airline cost savings of about \$130 million and \$80 million over 5 years at Sydney and Melbourne airports.

Specific initiatives that are within the control of the airport operators to better support on time performance include:

1. Improve wayfinding (type and placement of information).

2. Invest in retained knowledge in aircraft turnaround processes.
3. Adequate maintenance of aerobridges.
4. Manage flights to available capacity.
5. Improve cargo staging areas.

On baggage, if the average rate of international mishandled bags at Sydney, Melbourne and Brisbane airports was reduced to 2 per thousand, this would reduce the number of mishandled international transfer bags by about 16,000 per year, saving airlines some \$4.8 million per year (\$24 million over 5 years).

Projects that would help achieve better baggage outcomes include: equal priority for baggage makeup space; improved maintenance of baggage systems; tracking bags across handover points; and working with external parties, such as telecommunication providers, to ensure high quality connections for all remotely operated equipment (eg bag scanners in the airport's baggage rooms).

### Proactive rather than reactive

Member airlines appreciate the assistance being provided at Australia's airports to implement the travel restrictions and other requirements for international flights and passengers.

The airport operators, however, now also need to be proactive in their commercial response to the current downturn for international aviation. Rather than wait for requests from airlines and various industry bodies, they can choose to be proactive and detail the measures they are going to take to help international airlines and the industry during this difficult period. BARA would welcome information from them as to the initiatives they plan to implement.

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<sup>1</sup> BARA notes Sydney Airport's comments about its rate of return in the 2018–19 Airport Monitoring Report, namely that it prices from an indexed asset base.

BARA notes all airports generally apply indexation to their asset base for revenue and pricing calculations.



## Long range air traffic flow management

**Long-term growth in traffic volumes into Australia's major airports will add to an already congested airspace without improving the efficiency of aircraft operations. Conventional Air Traffic Flow Management (ATFM) processes need to evolve and improve to better support increasingly efficient safe aircraft operations to the benefit of passengers, freight forwarders and international flights.**

International flights can operate at a large variation from their scheduled or expected arrival time, generally expressed as being outside a 30-minute operating window. Difficulties at departure airports, multiple airspaces controlled by different air navigation service providers and prevailing weather conditions can all affect the flight times for international aircraft daily.

This lack of predictability in arrival times will likely be further increased with the expansion of User Preferred Routes (UPRs) for long-haul flights. UPRs allow aircraft to optimise flight profiles and times in real-time for prevailing wind conditions.

There is growing potential for long-haul flights to be increasingly delayed by being held near the airport's terminal area. This is a poor outcome for the flight's track-miles, fuel burn and descent profile. There is no value in a long-haul flight reducing its flight time to an airport through a UPR only then to be placed into a 'race track' pattern just outside the airport due to congestion.

### Current ATFM practices

Arriving aircraft are flow-managed from about 400 kms out from the airport by a tool called the Means to Aid Expedition of Sequenced Traffic

with Research of Optimisation (MAESTRO). It builds an aircraft landing sequence into an airport based on runway mode, meteorological conditions and current airport acceptance rates. To achieve the required landing sequence, air traffic control (ATC) intervenes with the optimised trajectory of arriving aircraft by either slowing or increasing aircraft speed; increasing their track miles (radar vectoring); or holding the aircraft in a pattern at some level below top of descent.

### The future LR-ATFM

Airservices Australia is planning to implement a Long Range ATFM (LR-ATFM) solution by pushing out the point of intervention from 30 minutes to about 4 hours from the estimated time of arrival (ETA). This is done by assigning a Control Time Over (CTO), an arrivals waypoint consistent with the aircraft's position in the landing sequence. The aircraft's flight management system will then recalculate and execute the required small adjustment in air speed to achieve the CTO.

The LR-ATFM program permits long-haul flights to absorb necessary changes to their arrival time through small adjustments in their cruising speed over an extended period. By moving flight changes to a flight phase where fuel burn is lower, airlines save on costs, and reduce emissions. It also improves predictability, which is necessary to deliver an optimised arrival profile.

### Manage sequencing well out from the airport

