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## **STANDING COMMITTEE ON SOCIAL AFFAIRS**

### **Review of the Fiji Airports 2017 Annual Report**



**PARLIAMENT OF THE REPUBLIC OF FIJI**  
**Parliamentary Paper No. 162 of 2019**

*September 2020*

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## COMMITTEE MEMBERSHIP



### **Chairperson**

Hon. Viam Pillay MP  
Government Member

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### **Deputy Chairperson**

Hon. George Vegnathan MP  
Government Member

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### **Member**

Hon. Alipate Nagata MP  
Government Member

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### **Member**

Hon. Salote Radrodro MP  
Opposition Member

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### **Member**

Hon. Dr Ratu Atonio Lalabalavu MP  
Opposition Member

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## CHAIRPERSON'S FOREWORD

I am pleased to present the report of the Standing Committee on Social Affairs on the annual review of the Fiji Airports for the year ended 31 December 2017.

This review was undertaken in accordance with Standing Order 109(2)(b) which mandates the committee to look into issues related to health, education, social services, labour, culture and media. The review looked at nine key areas covering the period from January to December 2017, conducted into: Fiji Airports' administration; structure; budgetary allocation; programmes and activities; policies; challenges; highlights; priorities for the coming years; and its implementation of the Sustainable Development Goals.

The committee first met on 25 and 26 February 2020 to deliberate on and formulate questions pertaining to the 2017 Annual Report of Fiji Airports. We were unable to conduct a public hearing with Fiji Airports due to COVID-19 restrictions put in place around the country when the hearing was scheduled to take place. In order to comply with health directives and social distancing measures in place, the committee requested for a written response from Fiji Airports in lieu of an annual review hearing.

Following our deliberations on its written response, we wrote to Fiji Airports requesting for further clarification on other related matters. Upon receipt of all relevant information from Fiji Airports on the committee's queries, the committee compiled its findings on the Annual Report and subsequently endorsed its report in the latter part of August.

At this juncture, I also wish to thank the former Chief Executive Officer of Fiji Airports, the late Mr. Faiz Khan, and his staff for their assistance in this review process. I also extend my gratitude to my Committee colleagues namely: Hon. George Vegnathan (Deputy Chairperson), Hon. Alipate Nagata, Hon. Salote Radrodoro, and Hon. Dr. Ratu Atonio Lalabalavu for their contributions. Finally, I thank the Secretariat, Ms. Sheron Narayan, Ms. Marica Tuisoso, and Ms. Atelaite Leba for the assistance provided during the committee's deliberations.

I, on behalf of the Standing Committee on Social Affairs, commend our Report on the Fiji Airports 2017 Annual Report to Parliament and request all members of this August House to take note of the Report.



**Hon. Viam Pillay**  
**Chairperson**

## **LIST OF ACRONYMS**

ACI	-	Airports Council International
ADB	-	Asian Development Bank
ATM	-	Air Traffic Management
FA	-	Fiji Airports
IAS 20	-	International Accounting Standards 20
IFRS	-	International Financial Reporting Standards
MP	-	Member of Parliament
NDP	-	National Development Plan 2017-2021
PV	-	Photovoltaic
SDGs	-	Sustainable Development Goals

## **RECOMMENDATION:**

The Standing Committee on Social Affairs has conducted the annual review of the Fiji Airports for 2017, and recommends that the House take note of its report.

## **1.0 INTRODUCTION**

The 2017 Annual Report of Fiji Airports (FA) was tabled in Parliament during the November 2019 meeting and referred to the Standing Committee on Social Affairs for its scrutiny.

Standing Orders 109(2)(b) allows Standing Committee on Social Affairs to examine matters related to health, education, social services, labour, culture and media.

Furthermore, Standing Orders 110(1)(c) authorises the Standing Committee to “*scrutinise the government departments with responsibility within the committee's subject area, including by investigating, inquiring into, and making recommendations relating to any aspect of such a department's administration, legislation or proposed legislative program, budget, rationalisation, restructuring, functioning, organisation, structure and policy formulation.*”

### **1.1 Committee Procedure**

We met on 25 and 26 February 2020 to deliberate on and formulate questions pertaining to the 2017 Annual Report of Fiji Airports. We were unable to conduct a public hearing with FA due to COVID-19 restrictions put in place around the country when the hearing was scheduled to take place. In order to comply with health directives and social distancing measures in place, we requested for a written response from Fiji Airports in lieu of an annual review hearing.

Following our deliberations on its written response on 13 and 14 May 2020, we wrote to FA requesting for further clarification on other related matters. Upon receipt of all relevant information from FA on the committee's queries, we compiled our findings on the Annual Report and subsequently endorsed it on 12 and 20 August 2020.

We received written and supplementary responses from Fiji Airports for this annual review. They are available on the Parliament website, at the following link: <http://www.parliament.gov.fj/committees/standing-committee-on-social-affairs/>

## 2.0 ABOUT THE COMPANY

Fiji Airports is a fully Government owned Commercial Company which was established on 12 April 1999 under the Public Enterprise Act, 1996.<sup>1</sup>

We note that the core responsibilities of Fiji Airports are to:

- Carry out international, domestic and outer island airport operations and maintain and manage infrastructure assets under safe, reliable and efficient best practice principles;
- Carry out Air Traffic Management in the Nadi Flight Information Region and Fiji's Upper Airspace of 6 million square kilometres;
- Provide world class customer experiences to its passengers;
- Provide reasonable returns to its shareholders; and
- Continually invest and develop its ATM facilities, terminal and airfield pavement infrastructure to safe, reliable and world class standards.

## 2.1 Financial Performance

In 2017, Fiji Airports' total revenue was \$140.1 million; this is up 19 percent from \$118.1 million in the previous year. Its operating expenditure was \$58.1 million, an increase of 14 percent from \$50.8 million in 2016. This resulted in Fiji Airports making net operating profits before tax of \$80.2 million compared to \$65.86 million in 2016, an increase of 22 percent. This was mainly due to the increase in revenue generated by air navigation charges, concessions, landing and parking fees international, terminal navigation aid charges, and rental offices and warehouses.

The rate of staff turnover was at four percent. Dividends declared and paid to the Government in 2017 amounted to \$45 million.

Fiji Airports was recognized by Airports Council International (ACI) for its very good overall cost competitiveness and cost management in the region both in terms of operating expenditure and capital expenditure.

### 2.1.1 Audit Opinion

The audit of Fiji Airports (then Airports Fiji Limited) for the financial year 2017 resulted in the issuance of *unmodified opinion* (unqualified) audit opinion. However, there was a matter drawn to the management of the company in relation to non-compliance with the requirements of the International Accounting Standards (IAS) 20.

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<sup>1</sup> Extracted from page 2 of the Fiji Airports 2017 Annual Report



The Company was reminded that in complying with the Circular issued on Cabinet decision No.357 of 2012 for its accounting treatment of government grants after 1 January 2010, was not in compliance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

We queried Fiji Airports on the above issue and requested for confirmation on whether the matter had been resolved. FA informed us that this issue is in relation to government grant policy received in the years 2010 – 2015 and was based on the Ministry of Public Enterprise circular dated 14 March 2013. The circular stated that all government companies, like Fiji Airports were to treat any funds received after 2010 as capital contribution and not as deferred income. We note that this treatment was not IFRS compliant.

In April 2016, the Ministry subsequently issued a circular stating that “Treatment of Government Grant” received from March 2016 onwards was to be IFRS compliant and to be applied henceforth. However, it did not provide any changes to the treatment of grants received between 2010 and 2015.

Therefore, we note that this matter raised relating to IAS 20 is out of the scope of Fiji Airports to resolve. The resolution of this is only possible through another Government directive/circular specifically stating that:

*The treatment of Government grants received in the years 2010 to 2015 shall be treated according to IAS 20.*

### **Recommendation**

1. That Fiji Airports work together with the Ministry of Public Enterprise in rectifying this outstanding issue and correct its accounting for government grants received between the years 2010 and 2015 in accordance with IAS 20.

## **3.0 COMMITTEE’S OBSERVATIONS AND AREAS OF CONCERN**

### **3.1 Bad and Doubtful Debts of Fiji Airports**

In 2017, Fiji Airports accrued bad debts expense of \$124,050. Upon enquiring FA on the nature of the bad debts, we were told that it was in relation to the contract awarded to Pacific Affordable Homes in 2010 for the design and building of a new terminal in Savusavu. A performance bond of \$75,000 was paid by the contractor for this project which was cashed out by FA. Payment for phizon panels and materials to Pacific Affordable Homes of \$199,050 was made without proper records of delivery of goods on site that led to a dispute.

We were told that the current management had to correct this through legal action against the contractor which ultimately resulted in the contract being terminated in July 2017. However, with the death of the Pacific Affordable Homes owner and after exhausting avenues for possible recovery, the case was discontinued and the difference of \$124,050 recognised as bad debts.

In addition, we note that there is a significant bad debt risk to Fiji Airports if airlines go down. For example, Virgin Australia owes FA around \$700,000<sup>2</sup> and has gone under administration. FA has filed proof of its debt with the Administrators and awaiting outcome. We note that Fiji Airports is also having difficulties in recovery with some airlines delaying payment.

#### **Recommendations**

1. That Fiji Airports be more vigilant in the implementation of its agreements with airlines and also strengthen their internal processes to minimize the recurrence of bad and doubtful debts in the future.
2. To avoid similar recurrence of bad and doubtful debt the problems encountered in the design and building of the new terminal in Savusavu, Fiji Airports should strengthen its internal processes in the calling and processing of tenders and also stringently monitor and evaluate its projects.

### **3.2 Need for Review of Domestic Passenger Service Charges and Landing Fees**

Whilst domestic travel has resumed from end of April 2020, Fiji Airports has heavily subsidized domestic travel. To put in context for each landing at any of its runways, a twin otter pays

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<sup>2</sup> A breakdown of the outstanding \$700,000 owed to FA by Virgin Australia can be found at Appendix A of FA’s supplementary response.

\$15.18; ATR 42 - \$78.28; and ATR 72 - \$94.76. In addition, domestic passengers pay \$5.00 VEP per ticket. In a day, FA currently processes about a dozen domestic scheduled flight landings earning gross revenue of about \$1,000. This means that more pressure is put on Fiji Airports' finances when it is predominantly running only the domestic operations.

In 2017, revenue derived from “domestic passenger service charge” and “landing and parking fees” amounted to \$1.6m and \$22.4m respectively.

When benchmarked internationally, the landing and airport charges of Fiji Airports is one of the lowest in the world.<sup>3</sup> As such, there is an imminent need to review the landing fees and passenger charges so that Fiji Airports can continue to undertake upgrading and maintenance works to its airports and improves its service delivery to all Fijians.

### **Recommendation**

1. That Fiji Airports consistently liaise with the government to pursue a new business model in the review of its domestic operations for mutual benefit to its customers and also Fiji Airports.

### **3.3 Loss Making Airports**

Fiji Airports' business is built on a self-sufficient model since 2016 with zero taxpayer funding to run or develop the 14 loss making airports. The net cash flow deficit for operations and capital works of the 14 loss making airports in 2018 and 2019 amounted to \$18.9m and \$30m respectively.<sup>4</sup>

Upon querying FA on the reasons for the deficits, we were told that the outer island airports do not have a business case and will neither have one in the future. This is because they are maintained and operated in accordance with Government's vision to provide connectivity to our people living in remote geographical islands in Fiji.

FA further informed us that until 31 December 2015, Government was funding all capital works for outer island airports. Fiji Airports was funding all operational costs at a significant loss as part of its social responsibility. From 1 January 2016, however, FA took the responsibility and burden of capital cost which resulted in significant improvement and upgrade works to the 14 airports in a span of four years. We note that this undertaking is based on the international operations revenue subsidising the outer island and Nausori airports in a network type operations.

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<sup>3</sup> Refer to question 7 of written response for a comparison of Fiji Airports' aircraft and passenger related charges with that of other airports in the Pacific region.

<sup>4</sup> A breakdown of the deficits for operations and capital works of each of the 14 loss making airports can be found at Appendix A and B of Fiji Airports' written response.

In this regard, FA informed us that it has sought from Government to revert to pre-2016 position where Government is responsible for capital works grant for loss making assets.

### **Recommendation**

1. That Fiji Airports liaise and partner with other agencies, in particular the tourism industry, and local communities in creating more economic activities to make it more attractive for tourists and other related businesses.

## **3.4 Lapsed Annual Reports of Fiji Airports**

We are concerned with the delay in the submission of Fiji Airports' Annual Reports in accordance with Section 103 of the Public Enterprise Act, 1996. The organisation has had a lapse of two years in reporting on its performance and audited accounts for 2018 and 2019.

### **Recommendation**

1. That Fiji Airports should be more vigilant in the timely submission of its Annual Reports in accordance with Section 103 of the Public Enterprise Act, 1996.

## **3.5 COVID-19 Pandemic**

At the time of the committee's deliberations on the written response of Fiji Airports, COVID-19 (novel coronavirus) had been declared a pandemic and severely disrupted global travel bringing the Aviation Industry to an effective halt. As such, we were of the view that it was important to report on the enormous financial impact of COVID-19 on Fiji's aviation industry at present and also in the foreseeable future.

### **3.5.1 Initial response and actions**

We asked Fiji Airports on its initial response and actions towards cushioning the financial impact of COVID-19 on its operations.

FA informed us of the following measures it has undertaken in response to the adverse impacts of the COVID-19 pandemic:

- Provision of discounts to its Nadi International Terminal tenants who rely on tourism arrivals or departures. These discounts cost Fiji Airports around \$3 million per month in foregone revenue.

- Restructuring of its capital expenditure program to exclude all new future capital works, with the exception of contractual engagements.
- Extensive negotiations with suppliers and taking extreme cost cutting measures in order to mitigate the fixed cost burden as best as possible. These cost cutting measures have resulted in reduction in costs of around \$22m for 9 months between April to December 2020 even as revenue loss for the same period is forecasted to be around \$100 million.

### **3.5.2 Contingency plans**

We enquired FA on whether it has a financial contingency plan in place to sustain its operations in times of crises. FA told us that cost cutting measures within the organisation formed one of its financial contingency plans and should the pandemic continue for a prolonged period, discussions would also be undertaken with Westpac and ADB for further borrowings.

### **3.5.3 Financial impact**

The Airports Council International (ACI) Asia-Pacific has warned that the prolonged duration of the COVID-19 pandemic will significantly set back the region's airports from previously forecasted growth prospects. World Airport Traffic Forecasts 2019–2040 predicts US\$12.4 billion revenue for the first quarter in the Asia-Pacific region in the "business as usual" scenario. The impact of COVID-19 is projected to have a revenue loss of US\$3 billion for airports in the Asia Pacific region.

As a result of the impact of COVID-19, Fiji's airports are faced with immediate cash flow pressures with limited ability to reduce fixed costs and existing commitments. FA told us that even after recovery, all projections indicate that it will take 2-3 years for passenger numbers to return to last year's level. It is looking at 2023 to return to 2019 levels.

### **Recommendations**

1. That Fiji Airports, in collaboration with government and other relevant national and international agencies, have a tourism marketing plan in place with adequate resources to revive and recover our tourism industry.
2. That Fiji Airports develop a contingency plan for unforeseen circumstances in future.

## 4.0 SUSTAINABLE DEVELOPMENT GOALS

This section of the Report will focus on how Fiji Airports has endeavoured to progress the Sustainable Development Goals and how it has mainstreamed SDGs into its programmes and activities.

### **Goal 5. Achieve gender equality and empower all women and girls**

#### **Targets:**

#### **5.1 End all forms of discrimination against all women and girls everywhere**

#### **5.c Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels**

Fiji Airports' philosophy is that it is gender blind when it comes to recruitment, training, hiring and promotion. It is an equal opportunity employer. In 2017, the company's workforce was made up of 525 employees and 20% of these were women. However, certain Departments of Fiji Airports have been traditionally male dominated such as, Fire Fighting, Engineering, Building and Civil Works, and Security. We note that women rarely apply for positions in these Departments even while FA encourages and promotes women to apply. Due to this drive, in highly specialised Departments like Air Traffic Management, women today make up more than 40% of staff numbers<sup>5</sup>.

#### **Target 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life**

The total staff in 2017 was 525 and 20% of this were women. Fiji Airports has women in some of the most critical positions of the organization including the Financial Controller who heads the Finance Department. In 2017, the Human Resources Manager position was also held by a woman who supervised more than 500 staff. We were told that Fiji Airports' ongoing succession planning will see more women taking up Management positions in the future. Apart from these positions, we note that Fiji Airports has a number of female staff in key supervisory roles.<sup>6</sup>

### **Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all & Goal 13. Take urgent action to combat climate change and its impacts**

Fiji Airports has received the ACI Level 3 Airport Carbon Accreditation for Nadi. It continues to develop new energy efficiency initiatives and is currently looking at ways to progress solar PV

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<sup>5</sup>Written Response of Fiji Airports (Question 3)

<sup>6</sup>Written Response of Fiji Airports (Question 4)

system for the Nadi Airport Terminal to further mitigate its carbon emissions. The company's future objective is to achieve Level 3+ as a carbon neutral airport.<sup>7</sup>

## **Recommendations**

1. We note that the Annual Report makes limited reference to the SDGs and does not specify which SDG each of Fiji Airports' programmes and activities relate to. The Committee, therefore, recommends that Fiji Airports:
  - Change the format/layout of its future Annual Reports to facilitate understanding of SDG information.
  - Explicitly link results with relevant/priority SDG goals and targets.
  - Include a section explaining how FA is prioritising action on the SDGs.
  - Report on the challenges faced with the implementation of the SDGs.
2. That FA work in collaboration with the Ministry of Economy for capacity building of staff to enable a better understanding of issues relating to the Sustainable Development Goals and its linkages to the work of Fiji Airports.
3. That future Annual Reports present a breakdown of gender equality and participation in the positions held within Fiji Airports.

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<sup>7</sup> Question 6 of the written response of Fiji Airports

## 5.0 NATIONAL DEVELOPMENT PLAN 2017-2021

Provided below are extracts from the NDP outlining the set targets of Fiji Airports from 2017 to date in respect of its programmes and projects relating to *Domestic Air Services* and *International Connectivity*.

### Section 3.2.3 of NDP      Domestic Air Services

*Goal: Unlocking our economic potential through consistent and reliable domestic air services*

#### Programmes and Projects

PROGRAMME	ANNUAL TARGET			LEAD AGENCIES
	2017-2018	2018-2019	2019-2020	
Construction of an Airport in Vanua Levu	OLS and Geo Tech to be completed	Feasibility Study and EIA		Govt/AFL
<b>STATUS</b>	In Progress – Pending Government direction and decision, FA is currently assisting in a World Bank study on an alternative site in Vanua Levu			
Upgrade and resurfacing of Rotuma Airport to accommodate ATR72-600	Works to Complete			AFL
<b>STATUS</b>	Target Achieved			
Matei Airport Upgrade for ATR 42/72-600	Works to commence	Works to Complete		AFL
<b>STATUS</b>	Target not Achieved – Project delayed due to land acquisition; subject to fees and charges review; and now further delayed due to financial impact of COVID-19			



Maintenance and upgrading of existing airstrips programme (Number of airstrips)	5 <sup>8</sup>			AFL
<b>STATUS</b>	Targets not Achieved for Matei and Gau Airports			

### **Section 3.2.4 International Connectivity (Airports)**

*Goal: Enhancing Fiji's status as a vibrant and modern regional and international hub for people and cargo movement*

#### **Programmes and Projects**

PROGRAMME	ANNUAL TARGET			LEAD AGENCIES
	2017-2018	2018-2019	2019-2020	
Completion of Nadi Airport Modernisation Project	Completed			AFL
<b>STATUS</b>	Target Achieved			
Nadi runway reseal and overlay maintenance	Runaway resealed			AFL
<b>STATUS</b>	Target Achieved			
Nadi apron pavement improvement G9-G12	Pavement improved			AFL
<b>STATUS</b>	Works deferred - Based on Nadi Airport Master Plan update, this scope would be impacted by terminal expansions			

<sup>8</sup> Matei, Kadavu, Lakeba, Gau and Bureta.

PROGRAMME	ANNUAL TARGET			LEAD AGENCIES
	2017-2018	2018-2019	2019-2020	
New aerobridges	Aerobridges available			AFL
<b>STATUS</b>	Target Achieved			
Nadi runway end safety area (RESA) improvement				AFL
<b>STATUS</b>	Target Achieved			
Expand Nadi Apron space to cater for business jets and increased commercial movement		Apron space expanded		AFL
<b>STATUS</b>		Target not achieved as works impacted by the Nadi Airport masterplan and delayed to align the program of works		
Domestic terminal upgrade		Terminal upgraded		AFL
<b>STATUS</b>		Target not achieved – works impacted by the completion of the Nadi Airport master plan and now COVID-19		

Walkway upgrade		Walkway upgraded		
<b>STATUS</b>		Target not achieved – programme is under design and currently on hold due to COVID-19 impacts		
Construction of International Transit Hotel in Nadi				AFL
<b>STATUS</b>	Target not achieved – project on hold given COVID-19 impacts			
Nausori airport and terminal upgrade	Runway upgrade and extension	Airport upgrading completed by 2020		AFL
<b>STATUS</b>	Targets not achieved: * <u>Nausori Airport upgrade</u> – Runway 43% completion expected June 2021 * <u>Nausori Terminal</u> – On hold given COVID-19 impacts			
Provide Performance Based Navigation (PBN) for Nausori Airport similar to Nadi Airport	Implementation of PBN as per the ICAO ASBU plan			AFL
<b>STATUS</b>	In progress – Partial implementation with ILS pending and integrated into the surveillance ATM in third quarter 2020			
Surveillance control in the domestic airspace	Implementation of ADS-B & MLAT			AFL
<b>STATUS</b>	In progress – Implementation through to 2020			
Aeronautical Information Management (AIM) & System Wide Information Management (SWIM)	Implementation of AIM & SWIM as per ICAO ASBU plan			AFL
<b>STATUS</b>	In progress - Network has already been established in the Common Regional VPN to enable the AIM to be implemented in 2022 as per the amended ICAO timeline. ICAO timeline for implementation has			

	moved to 2025 for SWIM.		
New ILS/DME for Nadi & Nausori airport	Commissioning of Nadi ILS/DME in 2017 and Nausori ILS/DME in 2018		AFL
<b>STATUS</b>	*Completed for Nadi airport *Pending for Nausori airport - to be completed concurrent to Runway extension and upgrade completion in June 2021		

## 6.0 THE COMPANY’S OVERALL PERFORMANCE

In 2017, the Nadi International Airport became internationally recognised as the Skytrax 6<sup>th</sup> most improved airport in the world as a result of the \$129 million terminal modernisation project which concluded in June 2018. It was also encouraging to note the continuation of development of the 13 Outer Island Airports by Fiji Airports as part of its 7 year development plan.

This report highlights the financial performance of FA and the operational issues faced by it in 2017. As significant as these challenges have been, none compare to the adverse impact of the COVID-19 pandemic on Fiji Airports. The travel restrictions and a fall in demand among travellers have resulted in massive decline in revenues for FA. The challenge for Fiji Airports now is to re-strategize its future business plans and work accordingly.

## COMMITTEE MEMBERS' SIGNATURE

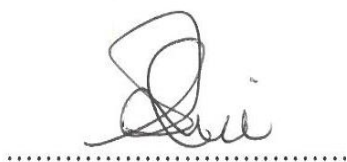
We, the Members of the Standing Committee on Social Affairs, hereby agree with the contents of this report:



Hon. Viam Pillay  
(Chairperson)



Hon. George Vignathan  
(Deputy Chairperson)



Hon. Alipate Nagata  
(Member)



Hon. Salote Radrodoro  
(Member)



Hon. Dr. Ratu Atonio Lalabalavu  
(Member)

# APPENDIX

## Published written evidence

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Written evidence and supplementary information was received from Fiji Airports and can be viewed on the Parliament website at the following link:  
<http://www.parliament.gov.fj/committees/standing-committee-on-social-affairs/>