

APPENDICES

Appendix One

Written Response by the Fiji Airports



11 June 2021

The Honourable Viam Pillay
Chairperson - Standing Committee on Social Affairs
Parliament of Fiji
P.O. Box 2352
Government Buildings
SUVA

Dear Sir

Request for Clarification on Issues relating to the Fiji Airports 2018 – 2019 Annual Report

We refer to your letter dated 14 May 2021 and respond to your questions as per below. Please note that some of the responses below may be repeated as we had recently provided supplementary information for the Parliamentary motion on the 2017 annual report that took place on 05 June 2021.

Questions

1. **What adjustment and relief measures has the Fiji Airports sought to implement to cushion the impact of the COVID-19 pandemic on its operations?**

FA Response

COVID 19 has drastically affected the entire aviation and tourism industry. This later trickled down to the rest of the economy. The impact on Fiji Airports was no exception.

Fiji Airports immediately put in place various stringent measures to ensure continued sustainability of the business. Tough decisions were made however it was necessary in line with the continued reduction of revenue.

Effective from 01 April 2020, the management took a 30% and the Board Chairman a 100% pay cut while staff working hours was reduced from 80 to 56 hours per fortnight effective from June 2020. Furthermore, all allowances were ceased effective from April 2020; this included overtime, penal rates, license allowance, sick leave bonus etc. Stringent cost cutting measures were undertaken. Contracts for terminal cleaning, security, grass cutting rubbish collection were all reviewed and either reduced or ceased in line with traffic movement. Telecommunication costs, which included leased line costs,

were revised according to requirement. Electricity usage was reviewed and reduced. Our term loan provider Westpac offered interest only payments in line with Government encouragement. Effective from September 2020 a progressive management and staffing restructure was undertaken. Retirement age was also reduced from 60 to 55 effective from 01 January 2021 to align with Government public service employees. Staff leaving were provided very attractive redundancy packages above and beyond those legally required rather than terminating them without any package so as to ensure a level of support for the individual and their family.

FA also made the decision to curtail our capital expenditure program and only progressed with those projects already under contractual engagement obligations and a few essential maintenance projects that are required for compliance, safety and continued airport and air navigation services.

Although FA was facing significant challenges of its own FA also had to ensure long term sustainability of our commercial partners at the Nadi International Airport and Nausori. As such FA offered discounts from 50% to 100% to all Nadi International Airport tenants depending upon the impact severity of COVID-19. This was necessary as we needed to ensure that these businesses remain viable once international borders reopen. If we did not take this approach many of the businesses would have closed operations completely. The discounts offered were provided in good faith and considering longer term benefit to the tenants and Fiji Airports.

In a further attempt to reduce costs and provide for a sustainable domestic aviation sector, we have approached the Ministry and Civil Aviation and CAAF with an interim safety case to review the provision of Aviation Fire Fighting and Rescue Services to the Outer Island Airports. Presently Fiji meets the full ICAO recommendations for ARFFS service to these airports whereas many countries (including Australia and New Zealand) have lodged differences with ICAO and have reduced and removed ARFFS services from low frequency domestic airports justified on a risk based assessment. Australia as an example has progressed down this path for approximately 20 years. Given SA have not had an aircraft accident requiring ARFFS response at these low risk airports in the history of Fiji Airports, we consider that CAAF and the Ministry of Civil Aviation consider a similar risk based approach such that the cost of the Outer island airport operations are reduced.

2. What are the main challenges that the Fiji Airports faced in the year under review?

FA Response

The main challenge of Fiji Airports is the outer island domestic airstrips. These airports all run at a loss and are subsidized by Nadi Airport revenue generation. Attached and marked Appendix A and B are cash flow tables that show the net cash flow deficit of \$18.9m and \$30m for operations and capital works of the 14 loss making airports in 2018 and 2019 respectively.

Furthermore, Fiji Airports has heavily subsidized domestic travel. To put this in context for each landing at any of our runways, a twin otter pays \$15.18; ATR 42 - \$78.28; and ATR 72 - \$94.76. In addition, domestic passengers pay \$5 VEP per ticket. This miniscule revenue results in additional financial pressure for Fiji Airports when we are predominantly running just the domestic operations. The domestic charges were due for a review in 2020; this is now on hold due to the current pandemic.

- 3. Update us on the progress of runway extensions in other airports in which there were difficulties faced in land acquisition, for example, the Matei airport.**

FA response

Although we were in the midst of finalizing land acquisition for Matei with the landowners and the Director of Lands, Fiji Airports made a decision to defer the Matei project (which is now scheduled to recommence in 2026-2027 at an approximate cost of \$22 million). Any further decision on progress of any outer island runway will depend on criticality of the project in terms of safety, Government funding, economic benefit flow on effects, and Fiji Airports' resource capacity.

Furthermore, Fiji Airports is self-funding the Nausori Runway Extension project which is costing us c\$64m. Nausori, like the outer island airports, has no business case. However since we had already reached around 50% completion it would not have been feasible or a practical option to terminate the project.

- 4. Considering the completion of the runway in Rotuma, are there plans to improve the runways in other outer island airports?**

FA Response

The Nausori and the Outer Island Airports operate at a loss and have been previously supported by the revenues of Nadi's Commercial Operations. Unfortunately, due to the impacts of Covid-19, Fiji Airports' revenue position has collapsed, and we are presently unable to fund additional outer island projects unless they are of a critical nature. The recovery from the impacts of this crisis is expected to take several years and Fiji Airports' revenue position is likely to be degraded for several years to come. The ability to recover additional costs from domestic charges is also considered unlikely given the fragile nature of the domestic aviation sector.

In 2019 and 2020 we had progressed and completed pavement maintenance works for the following airports:

- Bureta Runway
- Lakeba Runway
- Vunisea Runway
- Labasa Runway /Apron/Carpark

FA has spent approximately \$4.1m on the above works.

We have further plans to carry out critical assets maintenance works to the following airports: Matei, Vanua Balavu, Cicia, Moala, Gau and Oni Lau. The majority of the works are justified on a compliance base. We have made a submission to Government for funding to assist FA to carry out these maintenance works.

The Nausori and Outer islands Capital plan details the other planned maintenance across the network. These projects are largely subject to and driven by finance and business conditions enabling their completion.

- 5. When was the last time an audit was done on the facilities at the outer island airports to ensure the safety of the travelling public?**

FA Response

All outer-island airports are audited annually by the regulator, CAAF as part of their certification renewal. Their audit scope normally includes the airport facilities which are driven by the International Civil Aviation Organisation (ICAO) requirements to ensure the safety of the travelling public.

Fiji Airports also conduct annual audits of each airport however this was curtailed due to COVID-19 for the year 2020 and 2021. As an interim, reports from the outer-islands are sent to our team in Nausori on a weekly basis which highlights the status of our facilities at each airport. These reports are vetted by our Quality Assurance Officer and any requirements for improvements are communicated accordingly to our management for appropriate mitigations.

To date CAAF has renewed all certificates for our outer-islands airports.

In the development of this year's Nausori Outer Islands Capital Plan we directly engaged with Fiji Link as our primary customer and based on their feedback and collaboration, we updated the planned works with a greater focus on terminal and customer facing facilities in the current plan.

6. Provide a list of the shareholders of Fiji Airports.

FA Response

Fiji Airports is a 100% Fiji Government owned Commercial Company.

7. Highlight the plans on night flights to Labasa and the reasons for the delay in the night flight operation. When will the night flights commence to Labasa?

FA Response

Fiji Airports had installed all the necessary lighting system to ensure that night landings in Labasa can be executed. All the appropriate verification checks and a proving flight was conducted and the regulator, the Civil Aviation Authority of Fiji, endorsed the operations. The necessary certification was provided, quote *"the aerodrome is approved for the take-off and landing of aircraft by day and by night. However, operations at night are limited to aircraft/operators who have obtained the necessary approval from CAAF. Furthermore, all operations are subject to limitations published in the Aeronautical Information Publication – Fiji"* unquote.

This certification of approval was issued by CAAF on 29 August 2019. To date no aircraft/operator has approached CAAF for a license to operate night flights into Labasa. Following cyclone damage in 2021, Fiji Airports removed several of the solar and battery units that feed a number of the obstacle lights located on the hills around the airport for repair and safe keeping (given theft is an issue). We have an agreement with Fiji Link should they wish to proceed with night flights that these systems may be made operational within two weeks.

8. What has been the return of investment on the new Rotuma flights?

FA Response

The Rotuma upgrade was progressed based on the aviation safety case and on improving passenger and freight connectivity to Rotuma. It certainly has achieved this objective, however like the remaining outer island airports, does not have a commercial business case. Landing charges revenue for Rotuma in 2019 was c\$5k in total for the year. The cost of a chip seal runway we completed in Rotuma was around \$13 million. At that rate it would take us 2600 years to recover just the runway upgrade cost not taking account the increased operating and overhead expenses associated with maintaining a full Aircraft Fire and Rescue Service in Rotuma (6 firemen etc). As a result of the increased overheads following the upgrade and given only one flight per week, we now lose more money on the Rotuma route than prior the upgrade.

There is no need to go in detail financial analysis to understand and appreciate that there can never be a business case for outer-island airports. They are maintained and operated in light with Government's vision to provide connectivity and community obligations to our people living in remote geographical islands in Fiji.

Until 31 December 2015, the Government was funding all capital works for outer island airports due to the fact that these airports do not have any business case for Fiji Airports. Fiji Airports was funding all operational costs at a significant loss as part of its social responsibility.

However, this undertaking was based on the international Commercial operations revenue from Nadi Airport subsidizing the outer island and Nausori airports in a network type operation. With Covid-19, this revenue is non-existent and accordingly, we have made submission to the Government for Grants to assist Fiji Airports in continuing to maintain and operate its outer island airports.

9. Page 16 of Annual Report (Environmental Management - Level 3 Airport Carbon Accreditation) –

- a) Elaborate on the carbon accreditation from Level 1 to Level 3 and how the Nadi International Airport has successfully achieved Level 3 Optimisation within Airport Carbon Accreditation (ACA).**

FA Response

Airport Carbon Accreditation (ACA) is a program adopted by the Airports Council International (ACI), where it independently assesses and recognizes the efforts of airports to manage and reduce their carbon emissions through 6 levels of certification: 'Mapping', 'Reduction', 'Optimization', 'Neutrality', 'Transformation' and 'Transition'. To be recognized at any of the levels, the applicant is required to be independently audited by an accredited verifier approved by ACI.

ACI strives to enable the airport industry to effectively reduce its carbon footprint, to benefit from increased efficiency through lowered energy consumption. Fiji has attained 3 levels of ACA certifications so far namely:

1. **Level 1 (Mapping)** – requires airports to determine its emissions sources within the operational boundary of their business, calculate the annual carbon emissions using the ACI guidelines and compile a carbon footprint report. Nadi International Airport (NIA) had achieved Level 1 certification in 2018 by;
 - developing a Carbon Policy which shows FA's commitment towards reducing carbon emissions through various airport operation activities at NIA,
 - submitting a carbon footprint of the direct emission sources which FA has a control on (these includes sources which has an impact on managing aircraft operations at NIA)

Through Level 1, FA has five key carbon emission sources which have equivalent emissions as tabulated below:

	Emission Sources	Emissions (CO ₂ e in tons)
i.	Electricity	2610
ii.	Airside Vehicles	297
iii.	Standby Generators	6.5
iv.	Fire Training	0.5
v.	Waste Processes	147.9

**above emissions were calculated through the ACERT tool provided by ACI.*

2. **Level 2 (Reduction)** –requires an airport to fulfill all Level 1 requirements and provide evidence of effective carbon management procedures and quantified emissions reductions. In summary, NIA achieved Level 2 certification in the year 2019 by;
 - Fulfilling all level 1 requirements,
 - Formulating carbon emissions reductions targets
 - Developed a Carbon Management Plan to achieve the above targets.
 - Demonstration of scope 1 and 2 (direct emission sources) emissions reductions versus three years rolling average (2018 vs 2015-2017)

In 2019, FA had reduced its emissions from 10479.8 CO₂e tons to 10225.1 CO₂e tons (a reduction of 2.43%)
3. **Level 3 (Optimization)** – requires an airport to fulfill Level 2 requirements through; the active engagement of airport stakeholders and widening of the scope of carbon footprint to include their emissions as well. NIA achieved level 3 certification in 2019 by;
 - Fulfilling Level 2 requirements
 - Inclusion of airport stakeholders carbon footprint; and
 - Development of a Stakeholder Engagement Plan to reduce their carbon emissions as well.

Through Level 3, FA was able to further reduce its emissions from 4975.1 CO₂e tons (2019) to 4327.1 CO₂e tons (a decrease of 13%) in the previous 3 rolling years. (2016-2018).

- b) How will Fiji Airports ensure that this initiative is maintained and also extended to the Nausori International Airport to boost Fiji's commitment to climate change through carbon trading?**

FA Response

FA ensures that this initiative is maintained through:

- Having a dedicated team that monitors our Carbon Emission on a monthly basis.
- FA has a Carbon Management Policy which demonstrates the ongoing commitment and support from the Board and top management.
- The establishment and ongoing monitoring of our Carbon Management Plan (CMP) which allows FA to continuously monitor and challenge to reduce all our direct emissions sources at the airport.
- Internal and external awareness sessions conducted on energy saving opportunities.

FA hopes to extend this initiative to Nausori International Airport after the current pandemic when our business returns to a level of normalcy. Our current capital plan includes terminal upgrades to Nausori to progress from 2024 which include scope for energy efficient responses for carbon reduction.

- c) Explain its linkages to NDP and SDG(s).**

FA Response

FA is currently on Level 3 certified and is working towards Level 4 certification. Level 4 certification (transformation) requires airport operators to commit to the Paris Agreement, by limiting the increase in global mean temperature to two degrees Celsius above pre-industrial levels, aiming at 1.5°C. Through this program, FA is required to demonstrate and maintain its commitment through policy review, stakeholders engagement, setting of strategic carbon reduction goals/targets and continuous monitoring of its carbon emissions, with an ultimate goal of becoming carbon neutral by 2050.

- 10. Provide a progress update on the runway extensions at the Nausori Airport, the challenges faced in the completion of this project, and the return on investment.**

FA Response

The c\$64 million Nausori project is expected to be complete prior to the end of August 2021. The runway has been reoriented to its full width and length as per the final design and the instrument landing system was commissioned in May 2021. The outstanding works are limited to the final asphalt overlay on approximately 25% runway surface area and strip grading and leveling.

Again we need to highlight and state that Nausori project has no current commercial business case. The justification for this project was aligned to the Government's longer term economic objectives, particularly for the Suva Nausori corridor, as well as improving aviation safety for the airport.

Despite the project's long term economic drivers, Fiji Airports is utilizing its internal cash flow to fund this project. Landing Revenue for Nausori airport in a normal year (Pre-Covid) is approximately 602k which is a mere one percent (1%) of the upgrade costs and this excludes other operating and overhead costs. This total revenue does not cover costs and at that rate it would take us 100 years to recover just the runway upgrade cost (excluding operating and overhead expenses).

China Railway No. 5 (CR5) is a tier 3 Contractor and has previously successfully completed Rotuma. In engaging CR5 we entered the contract understanding that they would need much more direct supervision and oversight than a tier one contractor however hiring a tier one would have cost us around \$120m. These expectations of increased oversight and management have proven correct and we continue to work closely within them to achieve quality outcomes.

Covid-19 has directly impacted progress. The majority of CR5 management and supervisory staff returned to China for the Chinese New Year at the start of January 2020 and were then caught in travel restrictions associated with COVID-19. The majority of the CR5 team returned in early March 2020 and the key Project Manager returned in mid-November. Progress onsite came to a halt in April 2020 associated with the Suva lockdown, when CR5 elected not to attend site for the period of the lock down. Current progress remains constrained given ongoing lockdowns (limiting the staff workforce onsite) and with necessary additional bitumen expected to arrive in country in late May 2021. Other challenges have included land acquisition which has taken many years to resolve.

11. **The committee notes from its last review that flights to Rotuma were scheduled once a week. Enlighten the committee on whether the frequency of flights to Rotuma has changed since.**

FA Response

No, the frequency of flights remains one per week at Fiji Link's discretion. Fiji Link has not increased frequency despite our suggestion to do so. Presently the services have temporarily ceased due to covid restrictions.

12. **What are the main implementation challenges with regards to the Master Plan and how has the Fiji Airports sought to address these issues?**

FA Response

Currently the masterplan is on hold due to the financial impact of COVID-19. The underlying driver of the masterplan is passenger and flight growth. Current ICAO forecasts do not indicate a recovery of 2019 passenger numbers until 2023/24.

The masterplan based on current and forecast business conditions, is effectively delayed in

implementation by 3 to 4 years with the majority of current projects mothballed.

Should business conditions improve earlier than expected, design documentation is well advanced to enable shovel ready construction projects to proceed at short notice. We are also separately engaging with ADB on grant funding of approximately \$1.5 million for some short term Covid-19 ready projects in late 2021.

- 13. Provide a gender breakdown of the staff composition at Fiji Airports in the 2019 FY and the percentage of women in managerial positions.**

FA response

The total staff numbers in 2019 were 538 and 21% of those staff were women
Fiji Airports has departments that have been traditionally male dominated e.g. Firefighting, Engineering, Building and Civil Works, Security, Air Traffic Control. It is however very encouraging to see that we have c36% women in the ATM workforce.

Although we 0.19% in Managerial positions and this again is due to the technical nature of our business, Fiji Airports has a number of female staff in other key supervisory roles. These include highly specialized departments such as the Air Traffic Management department.
When it comes to recruitment Fiji Airports is gender blind and if the candidate person possesses appropriate skills for the position, he or she is chosen for the role.

I trust that we have adequately responded to the questions raised and clarifications sought by the Standing Committee on Social Affairs and will be most happy to provide additional details should the need arise.

Yours faithfully



Geoffrey N Shaw
Chairman

Appendix Two

Supplementary Responses

COMMITTEE RECOMMENDATIONS/AUDIT FINDINGS	RESPONSES
AIRPORTS FIJI LIMITED T/A FIJI AIRPORTS	FA RESPONSE
<p>1.0 AUDIT OPINION</p> <p>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.</p> <p>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 IAS20 Accounting for Government Grants and Disclosure of Government Assistance.</p> <p>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.</p> <p>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.</p> <p>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:</p> <p><i>The treatment of Government grants received in the years 2010 to 2015 shall be treated according to IAS 20</i></p> <p>Recommendation</p> <p>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</p>	<p>We appreciate the standing committee's understanding in this matter that: -</p> <p>"The resolution of this is only possible through another Government directive/circular specifically stating that:</p> <p><i>The treatment of Government grants received in the years 2010 to 2015 shall be treated according to IAS 20"</i></p> <p>Fiji Airports, as is the case for all State-Owned Enterprises, works closely with the Department of Public Enterprise. The department is an attendee at all Board meetings and privy to Management and Financial Reports.</p> <p>However, we do agree with the recommendation of the Committee and will communicate formally with the Department seeking a resolution of this matter.</p>
<p>2.0 COMMITTEE'S OBSERVATION AND AREAS OF CONCERN</p> <p>2.1. BAD AND DOUBTFUL DEBTS OF FIJI AIRPORTS</p>	

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 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

1. Airline Agreements / Aeronautical Charges

Covid-19 is an unprecedented event with the Aviation and tourism industry taking a massive financial and operating hit.

This unprecedented event has caused and forced businesses, which would normally be viable, into insolvency.

Fiji Airports International airline customers have traditionally been compliant with payment deadlines.

FA has a stringent debt collection policy which in normal times, has worked effectively for Fiji Airports.

However, FA makes note of the recommendation as highlighted by the committee and our regular review of policies endeavours to provide for "one in a hundred-year events" such as the Covid-19 pandemic.

2. Projects and Tender Process.

FA appreciates the recommendation of the committee.

FA has appointed an internal team that oversees and manages projects. This project management team is manned by highly qualified personnel and headed by our Projects and Infrastructure Director.

	<p>The team assess actual work completed against claims and verifies materials on site prior to approving certificates for payment.</p> <p>The team has successfully managed several projects, each worth millions of dollars .</p> <p>Fiji Airports has a very comprehensive tender and procurement policy. FA maintains this policy as a live document. It is regularly updated to include industry best practices.</p> <p>This policy mandates a thorough evaluation of all tenders in line with FA philosophy of "value for money procurement" prior to recommendation to the Board for approval.</p>
<p>2.2 NEED FOR REVIEW OF DOMESTIC PASSENGER SERVICE CHARGES AND LANDING FEES</p> <p>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 \$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.</p> <p>In 2017, revenue derived from "domestic passenger service charge" and "landing and parking fees" amounted to \$1.6m and \$22.4m respectively.</p> <p>When benchmarked internationally, the landing and airport charges of Fiji Airports is one of the lowest in the world. 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 so as to improve its service delivery to all Fijians.</p> <p>RECOMMENDATION</p>	<p>It is important to note that of the \$22.4m as mentioned in the committee's notes only \$800k relates to Domestic operations.</p> <p>We agree with the recommendation of the committee that there must be a regular review of charges applicable to the end user, to ensure <i>"mutual benefit to its customers and also Fiji Airports"</i>.</p> <p>The charges must be regularly reviewed and aligned to general expenses and cost of capital to</p>

<p>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.</p>	<p>enable Fiji Airports to continue to maintain and upgrade our loss making domestic airports.</p> <p>However, with the current Covid-19 crisis impacting the aviation industry, Fiji Airports has put this review process on hold for the present time.</p>
<p>2.3. LOSS MAKING AIRPORTS</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>RECOMMENDATION</p> <p>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.</p>	<p>We agree that creating more opportunities to drive economic activities is required in local communities with an aim to increase traffic flows and therefor revenue generation.</p> <p>Fiji Airports over the past years has contributed substantially endeavoring to stimulate the economy of the local communities by installing and funding infrastructure worth millions of dollars. As has been highlighted in the previous submissions, these massive investments have been made despite there being no business case for investment.</p> <p>To drive and realize additional economic activity, there is a need for contribution from various other stakeholders. Fiji Airports cannot achieve this goal in isolation and we note the committee understands this reality.</p>

	<p>We believe that additional and substantial progress can be achieved if these various stakeholder engagements drive outcomes being coordinated by the relevant ministries and state agencies who have the requisite resources and capability to achieve this end.</p>
<p>2.4. LAPSED ANNUAL REPORTS OF FIJI AIRPORTS</p> <p>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.</p> <p>RECOMMENDATION</p> <p>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.</p>	<p>The major component of the Annual Report is the audited financial statements. The 2018 financial statements were presented at the 2018 AGM held on June 23, 2019.</p> <p>The 2018/2019 Annual Report will be presented at the 2019 AGM which we have requested be held on the 23rd of October 2020.</p> <p>We do however take on board the comment relating to timely submission of Annual Reports.</p>
<p>2.5. COVID-19 Pandemic</p> <p>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.</p> <p>a. Initial Response And Actions</p> <p>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:</p> <p>O 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.</p>	<p>a. Stakeholder Engagement/Covid-19 Response</p> <p>Fiji Airports is part of the Tourism Recovery Group.</p> <p>This group comprises all major tourism and aviation stakeholders within Fiji.</p> <p>Meetings are held weekly and discussions include planned tourism recovery methodologies and initiatives once borders reopen.</p>

O Restructuring of its capital expenditure program to exclude all new future capital works, with the exception of contractual engagements.

O 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.

b. 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.

c. 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.

These meetings aim to ensure that all stakeholders are best prepared for resumption and ramp up of visitor arrivals.

b. Contingency plan

As the committee is aware, Covid-19 is a "one in a hundred-year" event with the aviation and tourism industry taking an massive financial hit.

This unprecedented event has caused and forced businesses, which would normally be viable, into insolvency.

No organization could have foreseen or have adequately prepared for the scale and prolonged impact of Covid-19.

However, Fiji Airports has taken various measures which have been previously highlighted to the committee, to cushion the operational and financial impact of Covid-19.

These measures together with Fiji Airports prudent and critical financial management applied over the past 7 years, have allowed Fiji Airports to tackle this unforeseen pandemic economic impact thus far and mitigate its effects.

As with all companies, financial resources and reserves are finite. Previous submissions to the committee have outlined contemplated financing options that we continue to explore.

	These options form part of a longer term strategy.
<p>3.0 SUSTAINABLE DEVELOPMENT GOALS</p> <p>This section of the Report will focus on how Fiji Airports has endeavored to progress the Sustainable Development Goals and how it has mainstreamed SDGs into its programmes and activities.</p> <p><u>Goal 5. Achieve gender equality and empower all women and girls</u></p> <p>Targets:</p> <p>5.1 End all forms of discrimination against all women and girls everywhere</p> <p>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.</p> <p>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 numbers⁵.</p> <p>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</p> <p>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.</p> <p><u>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</u></p> <p>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 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.</p>	<p>We note the comments of the committee regarding the structure of Fiji Airports Annual Reports.</p> <p>Our current Annual Report structure has been developed on our understanding of the oversight recipients and end user requirements of our reports and designed accordingly.</p> <p>In its current form, our annual reports seek to inform readers and cover various topics and activities undertaken by Fiji Airports, demonstrating how we have satisfied the intent and/ spirit of the SDG's.</p> <p>We take on board the committee's recommendations and will work with Department of Public Enterprise on how best can we adopt the recommendations mentioned in future Annual reports.</p>

<p>Recommendations</p> <p>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:</p> <ul style="list-style-type: none"> •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. <p>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.</p> <p>3. That future Annual Reports present a breakdown of gender equality and participation in the positions held within Fiji Airports.</p>	
<p>4.0 NATIONAL DEVELOPMENT PLAN 2017-2021</p> <p>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.</p> <p>Section 3.2.3 of NDP Domestic Air Services</p> <p><i>Goal: Unlocking our economic potential through consistent and reliable domestic air services</i></p> <p><u>Programmes and Projects</u></p>	<p>Other than those contractually committed and essential maintenance projects, all others are deferred pending:</p> <ul style="list-style-type: none"> • Resumption of business activity post Covid-19 and the ensuing ramp up of revenues in a timing sense; and • Securing necessary external funding prior to recommencing project activities. <p>The sustainable economic survival of Fiji Airports is paramount. Recommencement of projects will be prioritized based on a safety case assessment and need</p>

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
STATUS	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
STATUS	Target Achieved			
Matei Airport Upgrade for ATR 42/72-600	Works to commence	Works to Complete		AFL
STATUS	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 ⁸			AFL
STATUS	Targets not Achieved for Matei and Gau Airports			

justification, once normal business activity resumes.

Section 3.2. 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
STATUS	Target Achieved			
Nadi runway reseal and overlay maintenance	Runaway resealed			AFL
STATUS	Target Achieved			
Nadi apron pavement improvement G9-G12	Pavement improved			AFL
STATUS	Works deferred - Based on Nadi Airport Master Plan update, this scope would be impacted by terminal expansions			

PROGRAMME	ANNUAL TARGET			LEAD AGENCIES
	2017-2018	2018-2019	2019-2020	
New aerobridges	Aerobridges available			AFL
STATUS	Target Achieved			
Nadi runway end safety area (RESA) improvement				AFL
STATUS	Target Achieved			
Expand Nadi Apron space to cater for business jets and increased commercial movement		Apron space expanded		AFL
STATUS		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
STATUS		Target not achieved – works impacted by the completion of the Nadi Airport master plan and now COVID-19		

Walkway upgrade		Walkway upgraded		
STATUS		Target not achieved – programme is under design and currently on hold due to COVID-19 impacts		
Construction of International Transit Hotel in Nadi				AFL
STATUS	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
STATUS	Targets not achieved *Nausori Airport upgrade – Runway 43% completion expected June 2021 *Nausori Terminal – 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
STATUS	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
STATUS	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
STATUS	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	
STATUS	*Completed for Nadi airport *Pending for Nausori airport - to be completed concurrent to Runway extension and upgrade completion in June 2021			