

Meeting the costs of security enhancements

Introduction

- 4.1 In the previous chapter the Committee discussed various aviation security enhancements and noted some of the costs associated with those enhancements. The Government as regulator of Australia's aviation industry has the power to mandate additional security measures. If additional security measures are required, the issue becomes: How are the additional costs to be met?
- 4.2 The aviation industry is predominantly a private sector industry hence costs can be met from operating surpluses, from shareholders, or from the travelling public through increased fares and charges. A complicating factor, however, is that many regional airports are operated by local councils—albeit on a commercial basis.
- 4.3 On the other hand, there is a degree of 'public benefit' arising from the industry, for example through the facilitation of tourism. Consequently, it may be argued that the general community should pay for increased security through funds provided by the Government.
- 4.4 In Chapter 1, the Committee observed that the aviation security environment was continually changing as circumstances changed. The Committee has received much argument as to how the costs of security

enhancements should be met. This evidence, however, was received before the Government announced its enhanced aviation security package on 4 December 2003, and before the 2004–05 Budget. Both the package and the Budget provided extra funds to the aviation industry to meet increases in aviation security.

Balancing additional costs with potential impacts

4.5 The Committee agrees with CSIRO's view that achieving total safety, if that were indeed possible, would be prohibitively expensive. CSIRO stated:

... the cost to implement extensive systems that could potentially guarantee total safety are beyond the financial resources of the travelling public and governments, as well as a significant impediment to the use of the service and an excessive response to the estimated risk.¹

4.6 On the other hand, the costs of security enhancements can be small relative to the loss of an aircraft, the death of passengers and consequent litigation,² and the impact on the economy.

4.7 This view was confirmed by Virgin Blue which told the Committee:

I think that any incident to any airline within Australia would have catastrophic effects not only for Virgin Blue but also for Qantas, Alliance, Rex and any other airline in Australia; every airport; the hospitality industry; and the tourism industry. It would be phenomenal.³

4.8 Brisbane airport quantified the effect on a major airport when it told the Committee that the immediate cost of a two week shut down due to a terrorism incident was about \$7 million. There would also be the ongoing costs of reduced air travel.⁴

4.9 The effect on tourism was described by the Department of Industry, Tourism and Resources (DITR). The department told the Committee that in 2002, 99 per cent of the 4.8 million international tourists travelled to Australia by air. The tourism industry contributed 4.5 per cent to the gross

1 CSIRO, *Submission No. 9*, pp. 42–3.

2 Mr Clive Williams, *Transcript*, 5 September 2003, p. 59.

3 Mr Philip Scanlon, *Transcript*, 12 November 2003, p. 37.

4 Mr Stephen Goodwin, *Transcript*, 12 November 2003, p. 54.

domestic product and employed 6 per cent of the work force. It also provided 11 per cent of Australia's total exports.⁵

4.10 DITR added:

Following [the terrorist attack of 11 September 2001], there was a very major impact. It is somewhat difficult to disentangle that impact from the collapse of Ansett, which happened on 14 September, but into September 2001 arrivals fell by 9.1 per cent, in October by 11.3 per cent and in November by 18.2 per cent. It is also important to note that the forecasts of tourism growth prior to the September 11 events had been around 7 per cent a year over the next 10 years. Those have now been revised down to 4.6 per cent a year.⁶

4.11 There is therefore an incentive to all stakeholders in the aviation industry—from private enterprise through to government—to have the appropriate level of security commensurate with the risks. Consequently, it is reasonable for stakeholders to contribute to increased security.

4.12 There is also the argument that in a market economy those directly benefiting from aviation should make the greatest contribution. This would include the travelling public who would pay through increased fares.

Costs of increasing security at airports

4.13 Airports can be divided into two major groups—major airports servicing mainly the capital cities and regional airports. The differences between the groups stem from the numbers of passengers passing through the airport which impacts on airport viability. This viability has led in some cases to the airport operators becoming significant private enterprise entities.

4.14 In the discussion that follows the Committee has included the screening operations of airlines with those of the airport operators.

Costs at major airports

4.15 The cost of security at Australia's major airports is substantial. SACL told the Committee that security comprised 20%, or \$28 million, of its

5 Ms Patricia Kelly, *Transcript*, 5 September 2003, p. 25.

6 Ms Patricia Kelly, *Transcript*, 5 September 2003, p. 25.

operating costs. Over \$50 million was invested in security infrastructure. SACL added that the recently introduced explosive trace detection technology had meant an investment of an additional \$1 million, with \$2 million being added to annual operating costs. SACL predicted that the introduction of 'checked baggage' screening would require a doubling of investment in aviation security which translated to spending some \$80 million. This amount excluded the separate investment Qantas would have to make in its leased terminal.⁷

- 4.16 For Melbourne Airport, 15–20% of the budget was spent on security. APAM commented that much of its security costs were passed on to the aviation industry and ultimately to passengers.⁸ A similar percentage—some 21% of total cost base—was spent by Brisbane Airport on its mandated security.⁹
- 4.17 For a small international airport such as Cairns the introduction of 'checked baggage' screening is predicted to cost \$12–14 million to introduce. Cairns Port Authority told the Committee that when looking to recoup the cost over the ten year operating life of the equipment, the issue was the disproportionate cost which would be borne by passengers. This was because of the relatively small numbers of passengers when compared to larger international airports. The outcome was that Cairns as a destination was placed at a competitive disadvantage.¹⁰
- 4.18 The submission from Qantas stated that its security expenditure had increased by 68% in real terms since 11 September 2001. This included:
- over \$2 million biennially to meet the re-issuing every two years of identification cards to its employees; and
 - \$40.8 million over the next three years for the capital cost of security equipment, such as access control and X-ray screening equipment.¹¹

Costs at regional airports

- 4.19 On 1 December 2003 the Government announced an extension of Australia's aviation security regulatory regime to cover all airports which provided regular passenger transport services. This resulted in a

7 Mr Steven Fitzgerald, *Transcript*, 2 October 2003, p. 13.

8 Ms Pamela Graham, *Transcript*, 21 October 2003, p. 13.

9 Mr Stephen Goodwin, *Transcript*, 12 November 2003, p. 60.

10 Mr Ian Robinson, *Transcript*, 12 November 2003, pp. 72–3.

11 Qantas, *Submission No. 17*, pp. 113–14.

substantial number of regional airports being included in the security regime for the first time.

4.20 DoTaRS told the Committee that additional security was more than just installing an X-ray screening device:

People focus very much on screening at an airport. There is no point in putting the screening equipment in the airport unless you redesign the airport to funnel people through the screening point, and there is no point in having the screening point unless you have the perimeter fence that prevents people from bypassing the screening point. Having put the perimeter fence in place, you then need to patrol it and light particular zones and so on. The introduction of a screening point costs, as a broad order of magnitude, around \$1 million in up-front capital and would cost around \$200,000 a year to operate.¹²

4.21 Examples of such changes were provided to the Committee:

- Coffs Harbour Airport would need up to \$1 million to introduce checked-baggage screening;¹³
- Mackay Airport would require \$1 million in capital costs, but this did not include alterations to baggage conveyor systems or changes to the terminal building;¹⁴
- Newman Airport would require \$3 million to rebuild the terminal to enable passenger screening;¹⁵
- Nhulunbuy Airport in the Northern Territory would have to spend \$2 million to comply with increased requirements;^{16,17} and
- Tamworth would need from \$750 000 to \$1 million in capital costs to install screening equipment and modify the terminal.¹⁸

4.22 The submission from Qantas indicated that the costs of introducing passenger screening at the regional airports into which Qantas operated

12 Mr Andrew Tongue, *Transcript*, 4 September 2003, p. 24.

13 Mr Bevan Edwards, Australian Airports Association, *Transcript*, 21 October 2003, p. 21.

14 Mackay Port Authority, *Submission No. 24*, p. 160.

15 Mr Andrew Gaynor, WA Government, *Transcript*, 21 October 2003, p. 58.

16 Mr David Piper, Australian Airports Association, *Transcript*, 21 October 2003, p. 24.

17 The Committee notes that Nhulunbuy is not on the list of airports to be regulated provided by DoTaRS at *Submission No. 79*, p. 460.

18 Mr Michael Dubois, *Transcript*, 2 October 2003, p. 36.

would cost ‘in excess of \$8.5 million in initial capital’ and ‘approximately \$18.6 million in annual operating costs.’¹⁹

4.23 Operating costs include equipment maintenance costs which are higher in more remote areas. The Australian Airports Association told the Committee that ‘the annual maintenance contracts for a particular piece of equipment could be 50 per cent greater than in a capital city.’²⁰

4.24 As a general rule some if not all of these additional costs would be passed on to passengers through increased ticket prices. Examples of such impacts were provided to the Committee:

- on-going costs at Coffs Harbour would amount to \$2 a passenger;²¹
- Mackay Airport would add \$1.50 per passenger to cover additional operating costs;²²
- Mildura Airport’s additional costs would amount to \$9 per passenger ticket;²³ and
- Mount Isa Airport would need to levy \$14 per departing passenger to fund checked baggage screening and explosives trace detection devices.²⁴

Meeting the additional costs for security at airports

Major airports

4.25 SACL argued that the Commonwealth Government needed to accept that it had responsibility for ‘funding parts of aviation security in the national interest’:

We believe very strongly that aviation security is a national security issue. ... The target of terrorism has always been the symbolic representations of countries and possibly even national

19 Qantas, *Submission No. 17*, p. 117.

20 Mr Bevan Edwards, *Transcript*, 21 October 2003, p. 21.

21 Mr Bevan Edwards, *Transcript*, 21 October 2003, p. 21.

22 Mackay Port Authority, *Submission No. 24*, p. 160.

23 Mr George Vallence, Australian Airports Association, *Transcript*, 21 October 2003, p. 23.

24 Mr Damien Vasta, Queensland Government, *Transcript*, 12 November 2003, p. 45.

economies. The exception to this interpretation seems to come about only when it comes to the issue of funding.²⁵

- 4.26 Qantas argued there were distinct roles for government and industry. Qantas told the Committee:

I think that there are parts of this process that should be funded by government and there are parts that should be funded by the industry. The government has a role to fund border security issues, law enforcement issues, intelligence and security issues and those of a counter-terrorism nature. I think the airlines and airports have a role to provide protective security for their operations. At the end of the day the ultimate responsibility lies with the airlines. They are the people who are entrusted with the wellbeing of our passengers. ... I think passenger screening is a process that should be funded by the industry not government.²⁶

- 4.27 Qantas' submission provided more detail of the costs for which 'the Government should assume partial or full responsibility, because they primarily meet political or national security objectives.' These were:

- the ASO program (discussed below);
- the counter-terrorism first response function; and
- politically motivated violence checks.²⁷

- 4.28 Qantas concluded that the lack of assistance from the Government in regards to aviation security adversely affected the competitiveness of Australian airlines and consequently associated industries such as tourism. Qantas was competing 'with over 50 foreign airlines in the Australian market, many of which [had] received assistance in one form or another from their governments in meeting security measures.'²⁸

- 4.29 Virgin Blue in contrast suggested that there was a case for government assistance for the 'very large one-off cost for introducing global check bag screening infrastructure.'²⁹ When pressed by the Committee, however, Virgin Blue agreed with Qantas' concept of the division of responsibility, but still felt a case for government support could be made when one-off infrastructure costs were incurred.³⁰

25 Mr Steven Fitzgerald, *Transcript*, 2 October 2003, p. 13.

26 Mr Geoffrey Askew, *Transcript*, 12 November 2003, p. 12.

27 Qantas, *Submission No. 17*, pp. 114–15.

28 Qantas, *Submission No. 17*, p. 116.

29 Mr Philip Scanlon, *Transcript*, 12 November 2003, p. 29.

30 Mr Philip Scanlon, *Transcript*, 12 November 2003, p. 33.

- 4.30 The Queensland Government commented that the demarcation proposed by Qantas, while broadly correct, was not totally clear-cut. Certain airports and airlines were capable of absorbing the costs of additional security, but:

... some airlines in regional Queensland, for example, could be faced with security requirement costs that they may not be able to sustain. Similarly, airports in regional Queensland are potentially faced with those same concerns.³¹

Regional airports

- 4.31 Many regional airports are owned and operated by local government. The NSW Government told the Committee that they also provided a 'vital economic and social link for rural and regional communities'.³² The submission from the Australian Local Government Association went further:

In remote and regional communities, basic services such as public transport and delivery of fresh food, medical supplies, mail, educational materials, and urgent supplies rely on the use of airport infrastructure. Airports gain further importance as entry gates to regions for business and industries that support and encourage ongoing regional and economic development.³³

- 4.32 Tamworth City Council told the Committee that its fee structures were already marginal. Consequently, airport viability could be affected because airlines were likely to pass on fee increases to passengers who may well choose other forms of transport. Airlines would ultimately reconsider whether their services to regional airports were viable.³⁴
- 4.33 The submissions from the Governments of South Australia and Tasmania also questioned the financial viability of their smaller airports if the airports had to meet the costs of upgrading security.³⁵
- 4.34 All of the submissions from regional airports and the State Governments advocate the role of government, specifically the Commonwealth Government, in providing support for any increased security measures.

31 Mr Damien Vasta, *Transcript*, 12 November 2003, p. 42.

32 Mr John Schmidt, *Transcript*, 2 October 2003, p. 2.

33 ALGA, *Submission No. 37*, p. 268.

34 Mr Michael Dubois, *Transcript*, 2 October 2003, p. 36.

35 State Government of South Australia, *Submission No. 56*, pp. 309–10; State Government of Tasmania, *Submission No. 32*, p. 240.

- 4.35 In contrast, the submission from Qantas stated that regional airport security was ‘a joint responsibility of State and Local Government, airport operators, airlines and other stakeholders.’ At the time of the submission, however, the aviation security regime had not been extended to include regional airports. Qantas stated it agreed with the Government’s view that security risks in regional aviation did not justify the additional expenditure which would be required for additional security.³⁶
- 4.36 The role of State government has been acknowledged by representatives of the State Governments of Queensland and Western Australia.
- 4.37 The Queensland Government told the Committee that it subsidised air services to remote areas and assisted regional airports run by local government:
- The service itself is subsidised and the funds actually go to the airline in order to meet the shortfall that exists between the cost of operating the service and the revenue collected as fares. So the funds are used to make sure that the airline can operate the service in a profitable way and that the services continue. ...
- The money that goes to local governments is under the grants program known as the Rural and Remote Airport Development Program where airports, through the local government as the owner, can apply to the state government for funding to upgrade their airports. It is usually used to improve the level of access that may or may not exist.³⁷
- 4.38 The Western Australia Government told the Committee it also assisted regional air transport services and airports:
- The essential air services program provides finance to subsidise air services that would not be commercially viable, even for one particular airline. ... The regional airports development scheme has provided \$16 million of state government capital to regional airports and has leveraged in excess of \$40 million from the local councils, from the Commonwealth government in some respects, and also from the private sector.³⁸
- 4.39 The Western Australia Government commented that it provided grants to airports on a dollar for dollar basis. It cited the example of its grant of

36 Qantas, *Submission No. 17*, p. 117.

37 Mr Damien Vasta, *Transcript*, 12 November 2003, p. 46.

38 Mr Andrew Gaynor, *Transcript*, 21 October 2003, p. 60.

\$175 000 to Newman Airport to cover half the cost of designing the new terminal building.³⁹

Meeting the costs of the Air Security Officer program

- 4.40 As noted in Chapter 3, the costs to Qantas of the ASO program has amounted to \$5.4 million for domestic flights. When ASOs have a presence on international flights Qantas estimated the cost of the program would increase to \$20 million per annum in forgone ticket revenue.⁴⁰
- 4.41 Qantas' submission argued that the Commonwealth should contribute to the cost of the ASO program because it met national security objectives. Qantas also argued that some of its international competitors were receiving assistance for security measures and Commonwealth assistance would restore some competitive balance. The submission also noted it was seeking relief from the Commonwealth.⁴¹
- 4.42 A supplementary submission from the AFP provided more information. AFP advised that the Commonwealth Government bore the costs of maintaining an operational program including ASO training and salaries. The airlines met the ticket costs for ASOs deployed on domestic flights. An interim agreement had been struck with Qantas for the funding of seats on international flights. Negotiations concerning permanent funding were continuing.⁴²

Committee comment

- 4.43 There appear to be two major arguments proffered for the Commonwealth to provide assistance to the aviation industry:
- that there are national security and economic benefits; and
 - that there are regional economic and social benefits.
- 4.44 The Committee draws attention to the comments at the beginning of this chapter indicating the effect of a major aviation security incident on the Australian economy. The effect would be significant.
-

39 Mr Andrew Gaynor, *Transcript*, 21 October 2003, p. 60.

40 Qantas, *Submission No. 17*, pp. 114–15.

41 Qantas, *Submission No. 17*, pp. 114, 115, 116.

42 AFP, *Submission No. 90*, p. [p.1].

- 4.45 In considering the issues it should not be forgotten that ultimately the public pays through a combination of taxes, rates, and/or ticket prices. If there is no Commonwealth or State Government contribution the travelling public pays and, in the case of regional airports run by local government, ratepayers may subsidise the service.
- 4.46 If the Commonwealth contributes it is the wider community (ie including non-air travellers) that pays in recognition that the wider community benefits economically and socially from a broad aviation transport industry.
- 4.47 The Committee believes a distinction can be drawn when considering cost imposts between major airports and airlines, and regional airports and airlines. The large numbers of passengers passing through major airports and travelling on major airlines enable economies of scale to be achieved. The Committee also notes that major airports are becoming significant retail centres. These factors enable greater flexibility in absorbing capital and operating costs when enhanced security measures are introduced. The large number of passengers means that when costs are eventually reflected in the form of increased ticket prices, increases are relatively small.
- 4.48 Regional airports and regional airlines do not benefit from economies of scale and suffer economic penalty from being in remote areas. The Committee notes DoTaRS' comment early in the inquiry when it discussed whether the security system should be expanded to include regional airports:
- The challenge we face though is that in seeking to move to regional airports, we would effectively shut them down. That is simply because of the costs of security.⁴³
- 4.49 The Committee accepts the argument that regional airports are important to vibrant and viable regional communities. The Committee also considers that viable regional communities benefit the nation.
- 4.50 The Committee believes it is important for State Governments to continue to recognise the value of regional aviation through the provision of assistance to regional airports and regional airlines. The Committee commends the Queensland and Western Australia Governments for providing such assistance. The evidence provided to the Committee did not indicate whether or not similar assistance was provided by other State or Territory Governments.

43 Mr Andrew Tongue, *Transcript*, 4 September 2003, p. 18.

- 4.51 The Committee notes that the debate on how security enhancements at regional airports should be funded has been largely overtaken by recent Government announcements on 4 December 2003 and in the 2004–05 Budget.
- 4.52 The announcement in December 2003 extended security regulation to regional airports and indicated that a \$14 million grants program, on a dollar for dollar basis, would be available to ‘assist eligible smaller airports [to] implement appropriate security measures.’ The enhanced security package was to be funded from surplus Ansett levy money.⁴⁴
- 4.53 The announcement in the 2004–05 Budget expanded the money available to regional airports to \$35 million and dropped the requirement for a matching contribution from the airport.⁴⁵
- 4.54 The Committee observes that, from the cost information provided, the additional Commonwealth funds are unlikely to meet the total needs of all the regional airports coming under the expanded regulatory regime.
- 4.55 Turning to the ASO program, the Committee agrees with Qantas’ argument that national security objectives warrant a contribution from the Commonwealth. An incident involving a major Australian airline, either Qantas or Virgin Blue, would have a direct impact on the attractiveness of Australia as an international tourist destination. There would be a consequent effect on a major export industry.
- 4.56 The Committee is pleased that the issue of the funding of the international component of the ASO program appears to be near to resolution.

44 DoTaRS, *Submission No. 79*, p. 443.

45 Budget Measures 2004–05, Budget Paper No. 2, p. 98.