

Our Ref: 0633/05/GD/TH

14 July 2005

Mr Russell Chafer  
The Secretary  
Joint Committee of Public Accounts and Audit  
Parliament House  
Canberra ACT 2600



Dear Russell,

**RE:- Review of Aviation Security in Australia**

Thank you for your letter of 15<sup>th</sup> June 2005 inviting Mackay Port Authority to provide a public submission addressing the terms of reference of the review.

Our response to the individual terms of reference is detailed in attachment A. Please note that this response is not necessarily the view of the Queensland Government.

The two items that have the most impact on Mackay airport and regional development are the escalating costs of Government regulations and charges from Aviation Security and Airservices airport Tower and Fire services. We are told by the bureaucrats in Canberra that the public are prepared to pay the extra airfares in order to have these levels of security, tower and fire services. What they do not understand is that people vote with their feet when prices continually increase and either revert to other forms of transport such as car, coach or train or decide to just stay at home.

Access Economics and others internationally (see attached extracts from the report by Campbell-Hill Aviation Group for the US FAA) have studied the dynamics of price elasticity of airfares and estimated that for every 1% increase or decrease in airfares this produces a factor of increase or decrease in demand of between -.6 and -4.5 depending on the mix of the passengers and on competitive transport on a particular route. A pure leisure route like Sydney to Ayers Rock may have a factor of 4 whilst the main trunk routes with a high proportion of business travelers who are prepared to pay higher prices with some leisure travelers as well may have a factor of 1.5. We estimate Mackay to have a factor of 2 which means an increase in airfares of 10% due to increased security costs could produce a lessening in demand of 20%. So if airfares increased at Mackay by 10% then we could suffer a reduction in passenger movements of 116,000 or 58,000 return airfares. This translates to a loss of 29,000 visitors to Mackay and at a conservative estimate of the average amount spent per person of \$750 **this means an economic loss of \$22m to the Mackay region.**

The flow on effect of these increased airfares to regional Australia is that there is more traffic on the roads, more accidents and therefore significant additional costs to Government. Inbound tourism is also affected and air access into regional Australia suppressed (where the real natural Australian experiences are) which mean less international visitors and less foreign currency into Australia as well as more Australians choosing to holiday overseas which once again has a negative effect on the Australian economy. Data from the Department of Industry, Tourism and Resources 2003/04 states that "Tourism is a \$73 billion industry for Australia. In 2003-04 tourism directly accounted for 3.9% of expenditure on GDP, employed 536,000 people and accounted for \$17.3 billion in export earnings (12.1% of total exports). Tourism has emerged as a major factor for regional economic development; 70% of all domestic tourism and 23% of international tourism occurs outside of the state and territory capital cities. It generates 206,000 jobs for regional Australia.



These hurdles to regional development need to be addressed and Government provide equalization of the costs for safety and security at all airports both big and small, if the nation is going to grow and prosper. The lower passenger throughput at regional airports cannot support the same security or safety measures that are provided at the eleven major CTFR airports with larger passenger numbers which are able to support a user pay system.

The cost of Tower and Fire services alone for landing a Boeing 737-700 with 108 passengers at Sydney airport is \$4.12 a passenger and at Mackay \$13.73 a difference of \$9.61 a passenger which is included in the everyday low airfare of \$79 on the Mackay to Brisbane route which is a significant additional cost of 12%. The proposed additional costs to meet new security enhancements that we estimate could be as high as 10% will be passed onto the passenger and further suppress customer demand to regional destinations.

So that airports in regional Australia such as Mackay can compete with the capital city airports for airline capacity and low airfares we request that the Government either fund any additional security measures at regional airports, as they have done with the smaller regional and rural airports, or have a risk based approach to security based the number of jet services, passenger throughput and the individual characteristics of each airport. Obviously the more passengers, airline services, staff employed and vehicle movement airside at an airport the bigger the chance of an accident or incident just like the more traffic on the national highway the greater chance of accidents.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'G. R. Davies', with a horizontal line underneath.

GRAHAM DAVIES  
CHAIRMAN  
MACKAY PORT AUTHORITY



## ATTACHMENT A

- (a) **regulation of aviation security by the Commonwealth Department of Transport and Regional Services, and the Department's response to aviation security incidents since June 2004;**

This has been a very difficult period for all participants in the aviation industry and at times changes have been proposed and implemented without the full appreciation of flow on effects to the industry. This has caused uncertainty of interpretation and national consistency. It is pleasing to see that there is now more consultation with industry through the ICM and newly formed RICM committees.

- (b) **compliance with Commonwealth security requirements by airport operators at major and regional airports;**

Privately owned airports have a huge investment and are accountable to their shareholders and know the importance of ensuring their duty of care and the good name of their business to ensure long term viability. These airports usually do more than required by the regulations, however other less resourced and funded airports in the regions do not have the same drivers or capacity.

- (c) **compliance with Commonwealth security requirements by airlines;**

The major airlines are in the same position as the private airports, it in their best interests to ensure security requirements are met. The smaller regional operators, particularly charter and GA seem to see security as a hinderance and financial burden on their operations.

- (d) **the impact of overseas security requirements on Australian aviation security;**

At major Australian gateway international airports it is important that ICAO standards are met to compete and provide similar service and security levels as is available internationally.

- (e) **cost imposts of security upgrades, particularly for regional airports;**

We refer to the recent press release by the Minister for Transport on 7<sup>th</sup> June that the Government intended introducing regulations to inspect all persons, vehicles and goods entering or leaving airside at Australian airports including all airline and airport staff as well as contractors. Our initial estimate to DOTaRS of providing gatehouses, screening equipment, explosive trace detection equipment, CCTV coverage at only four entry points to airside as well as checked bag screening for passenger bags and additional patrols by security officers 24 hours a day was \$4.4m an annually. Mackay has an annual throughput of 580,000 passengers so this would mean an extra \$7.72 a passenger which is about an increase of 10% of the everyday low airfare of \$79 on the Mackay to Brisbane route.

- (f) **privacy implications of greater security measures;**

Not a significant issue

- (g) **opportunities to enhance security measures presented by current and emerging technologies, including measures to combat identity fraud; and**

Biometrics is definitely the way forward at the major airports where the significant number of staff means an intruder can get airside without being questioned. At the smaller airports everyone knows everyone and an intruder is easily noticed and challenged by staff.

- (h) **procedures for, and security of, baggage handling operations at international, domestic and regional airports, by both airlines and airports.**

The highest risk is at the international gateway airports with the import of illicit drugs a major problem. The opportunity for pilferage of passenger baggage is less at regional airports where the baggage make up areas are often common user and have a steady

stream of persons other than baggage handlers which lessens the opportunity for offenders to pilfer bags without being noticed.

The cost of re-engineering or extending terminals to install the \$1m multi view X-ray equipment for check bag screening as well as ongoing operational costs is onerous for regional airports. At Mackay airport it would require the terminal to be extended 30m to enable the installation and operation and two x-ray machines due to the existing baggage conveyor system. The estimated total capital cost of setting up for check bag screening is \$2.8m.

# The Wright Amendment Consumer Penalty



Brian M. Campbell, Ph.D  
Chairman

Dallas, Texas  
June 7, 2005



## Lower Fares Will Increase North Texas Passenger Volume

"Total elasticity of demand for air travel is a measure of air travelers' response to variations in the cost of air travel. This parameter measures the percentage change in air passenger trips resulting from a one-percent change in trip prices. Total elasticities are negative because price and quantity demanded are inversely proportional. ...

... FAA sponsored an extensive review of the economic literature regarding total elasticity of demand for air travel at a national level. The findings of this review are summarized in Chapter 2 and Appendix G of Report to Congress: Child Restraint Systems, Vol. 1 and 2, May 1995. The elasticity values found in the academic literature range from -0.6 to -4.5. Representative values for business and non-business travelers are presented in Table C.2. Values in Table C.2 can be tailored to the mix of passengers at an airport. Overall weighted values are -0.79 and -1.59 for business and non-business travelers, respectively, with an overall average (assuming the 50/50 mix typical of the nation at large) of -1.2. ..."

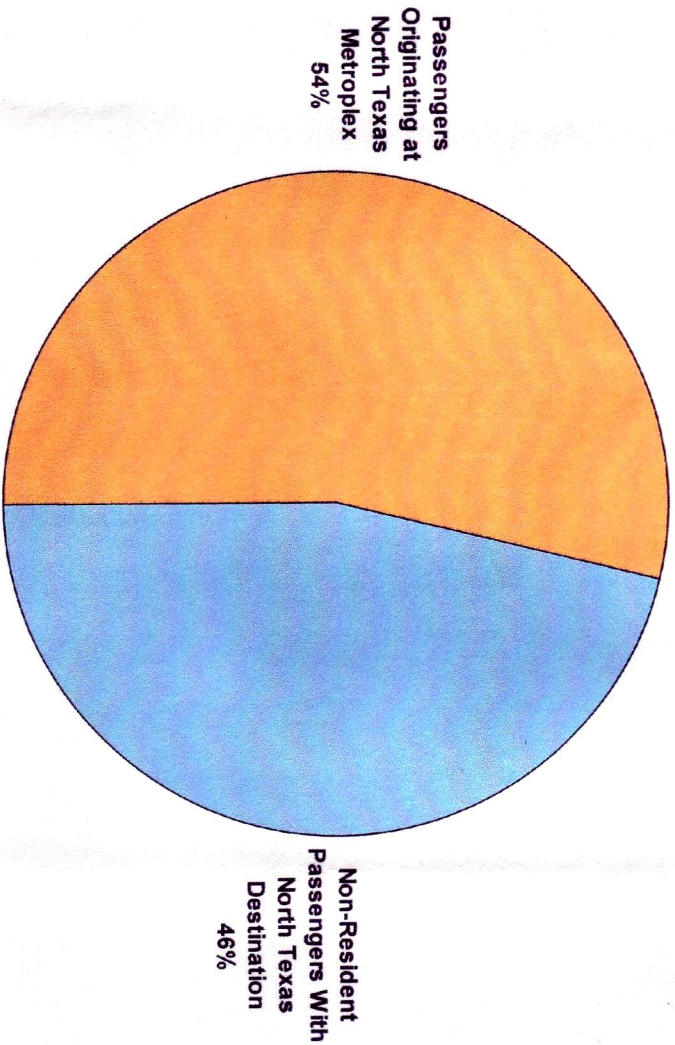
Source: "FAA Airport Benefit-Cost Analysis Guidance", Office of Aviation Policy and Planning, Federal Aviation Administration, December 15, 1999.

# The Wright Amendment Consumer Penalty

## Executive Summary

- The Wright Amendment imposes an economic cost to travelers and communities throughout the U.S. by prohibiting competition from Dallas Love Field in air travel between North Texas and any point outside a seven-state perimeter. 85% of the U.S. population lives outside the seven-state perimeter.
- This study calculates the amount of the Wright Amendment Economic Penalty by observing what would happen if the law were repealed and Southwest Airlines were permitted to enter 15 now-prohibited markets from Love Field, with three daily roundtrip flights daily in each. Using empirical, publicly available data, the study concludes that:
  - 3.7 MILLION MORE PASSENGERS WOULD TRAVEL IN THE 15 MARKETS ANNUALLY DUE TO NEW COMPETITION AND LOWER FARES.
  - PASSENGERS WOULD SAVE NEARLY \$700 MILLION ANNUALLY COMPARED TO AIRFARES CHARGED BY AMERICAN AIRLINES AT DFW AIRPORT WITHOUT COMPETITION FROM SOUTHWEST AIRLINES FROM LOVE FIELD.
  - NORTH TEXAS WOULD REAP AN ADDITIONAL \$1.7 BILLION IN ECONOMIC ACTIVITY ANNUALLY DUE TO INCREASED AIR TRAVEL TO THE REGION.
  - THE TOTAL WRIGHT AMENDMENT BURDEN ON PASSENGERS, NORTH TEXAS, AND CITIES BEYOND THE SEVEN-STATE PERIMETER EXCEEDS \$4 BILLION PER YEAR.
- North Texas and its residents now suffer from a lack of competition and high fares in longer-haul air travel. American Airlines provides over 80% of the service from DFW, and more than a third of American's nonstop DFW routes are monopolies. Repeal of the Wright Amendment would allow competition by Southwest from Love Field, force fares to decline at DFW, and increase travel to and from North Texas — generating enormous economic benefits for the region and its citizens.

## 46% of the Newly Generated Passengers Will Be Non-Residents Visiting the North Texas Metroplex



**3.7 Million New Passengers**

Source: U.S. DOT, Origin-Destination Passenger Survey, CY 2004 which reports where a passenger's ticket began.