

24 August 2005

Our ref: 23-05

Mr Bob Baldwin MP
Chairman
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2601

Dear Mr Baldwin

I refer to the letter from Mr Russell Chafer, Committee Secretary to the Joint Committee of Public Accounts and Audit (JCPAA), dated 3 June 2005, inviting submissions on the Review of Aviation Security in Australia. I welcome the opportunity to provide information to the Committee on Virgin Blue's views on this most important subject. I apologise for the delay in responding formally to the invitation.

It is the case that we take seriously our responsibility to both our staff and our customers to ensure their safety and security. This is our number one priority within Virgin Blue Airlines.

Since Virgin Blue commenced operations nearly five years ago, we have implemented and developed a number of programs to enhance our security credentials. We have met every requirement asked of us by government, noting that some of these security challenges have been both demanding and costly. Importantly, we have taken a number of initiatives to strengthen our security credentials, whilst acknowledging that we have to be vigilant in continuously improving our ability to handle potential security threats. We are fully aware that safety standards, including security, are paramount to the day to day operations of our airline. Our own vigilant approach to ensuring the highest standards of security ensure that we meet the regulatory requirements of government.

We believe that being a low cost carrier means that we share a disproportionate burden of the cost of a number of security requirements, some of which, particularly in regional Australia, discourage us from opening up new destinations. Of course, other factors, such as landing charges, also impact on any decision to open up new regional destinations.

It is our view that any decisions to upgrade security measures must be based on sound risk assessment and include full consultation with industry. Such consultation enables industry to provide expert input to the decision-making process, including firm

estimates of cost, technical and operational implications. And it goes at least some way to ensuring that affordable measures, able to meet any assessed threat, are presented to decision-makers. We also consider international standards and practices when examining new measures to improve our level of security. For example, we have learnt much from trace detection practices in Canada and the UK.

Over the past few years, we have developed a close working relationship with the Department of Transport and Regional Services (DOTARS) and other agencies and departments. As a member of the High Level Group (HLG) on aviation security policy, established by DOTARS in response to industry calls for improve consultation, it is the case that considerable progress has been made to involve industry in discussions about measures to improve security. We are also involved in other related forums chaired by DOTARS which meet regularly to discuss draft regulations and other security issues. Those forums generally work constructively with the aim of improving our ability to respond to security threats.

Virgin Blue operates 300 flights every day, employs nearly 4,000 people and operates 50 modern 737 aircraft. We fly to 23 destinations in Australia, New Zealand, the Cook Islands, Fiji and Vanuatu. For the second year in a row, Virgin Blue has been judged by OAM as the best low cost airline in the world.

As you appreciate, the aviation industry is highly competitive and unforgiving, with airlines worldwide estimated to face losses of more than \$7 billion this year. The Australian airline industry, through vigorous cost controls, has managed to be profitable during the past year, bucking the international trend. But it is becoming increasingly difficult to retain that position, especially as, during the past 12 months, fuel costs have increased by more than 60% and airport charges have increased by 40%. We seek tighter regulatory control with respect to airport charges to ensure a transparent and equitable system for all aviation travellers. Current monopolistic behaviour makes it more difficult for airlines to manage the increasing demands for the improved security cost and implementation.

The events of September 11, the Bali bombings and, more recently, publicity given to criminal activity at airports, including the events of the Corby case, has lead the Federal Government to announce additional aviation security measures. Some of these are desirable, whilst others do not appear to have resulted from sound assessment of the security threat, which has remained at the high end of medium level for more than four years.

For example, the introduction of the Air Security Officer (ASO) program was announced without any advance consultation with industry about its essentiality in response to likely security threats to Australian aviation. By contrast, the UK Government, whose aviation sector operates in a more threatening environment, saw no requirement to introduce ASOs. Whilst Virgin Blue has fully participated in the program, we are yet to be fully convinced of its true value. It has cost Virgin Blue a substantial amount to be involved, with no government contribution to offset that cost. We believe there is a case for reviewing the program to determine whether it is beneficial. We would welcome the opportunity to be involved in any such review.

The decision to introduce checked baggage screening and other security measures at regional airports operating jet aircraft was not, in our view, based on any credible security assessment. That decision significantly penalised Virgin Blue by comparison with other airlines operating non jet aircraft. The cost of those measures, which in the case of checked baggage screening amounts to around \$2 million at each location, has forced us to reconsider the commercial viability of a number of our destinations and restricted our plans to open up new destinations.

The estimate of the cost estimated that full checked baggage screening will cost more than \$20million at each of those airports. The cost is principally being passed on to airlines which, in turn, are of introduction of recently announced new security measures at major airports is also of concern to us due to the fact that we are in “common user” terminals. It is forced to increase the cost of air fares. We believe that government should take greater responsibility and make a major financial contribution to those improvements. The New Zealand government has fully funded the cost of all screening equipment. The airports, airlines and passenger then pay for the operational costs of this process. This was developed over a period of time as a result of in depth consultation with the aviation industry participants.

We support the decision to improve surveillance measures at major airports, including through the introduction of CCTV in baggage handling areas and in aircraft baggage holds. In fact, we had decided some time ago to introduce those measures at Brisbane airport based on our own assessment of the desirability of further security improvements at our home airport base. Our early work has enabled us to get a good fix on the cost and complexity of introduction of improved CCTV; this will provide a sound basis for our discussions with other airport owners on any improvements at their airports. Again, any additional measures need to result from proper assessment of the security threat. There is a case, we believe, for governments - both Federal and State - to make a substantial financial contribution to new initiatives to handle criminal activity at airports.

Introduction of an Australian Federal Police (AFP) management presence at a number of major airports will, I think, improve overall co-ordination of policing activity. We will work closely with those AFP officers to develop sounder environments, including ones which directly tackle criminal behaviour.

The decision to review who has access to ASIC's makes sense, especially if it leads to the removal of persons who are considered to pose a threat to the security of airside. We are available to work closely with responsible authorities to ensure the integrity of the review. Unfortunately, until now, such persons have received clearances to receive ASIC's which, in some instances, seemed inappropriate to us, but we were unable to do anything about them. We are of the firm belief that there should be a central government ASIC authority. This would then set the national standards and central decision making process. Therefore, the central unit would provide a consistent decision making body with a centralised database.

As I indicated at the beginning of this submission, Virgin Blue takes its responsibility for ensuring the safety and security of its staff and customers very seriously. We will continue to work with the appropriate authorities, including DOTARS and the AFP, to

review the appropriateness of our security programs to ensure these fully mitigate any assessed security threats.

I welcome the opportunity to meet with your Committee and to clarify any matters to assist you and committee members as they review this important subject.

Yours sincerely

Phil Scanlon
Manager, Security Department
Virgin Blue Airlines Pty Ltd