

ENHANCING SECURITY AT AUSTRALIA'S AIRPORTS
2020-21 PRE-BUDGET SUBMISSION

SUMMARY

Airlines for Australia & New Zealand's (A4ANZ's) pre-budget submission aims to provide evidence-based, cost efficient solutions to the Australian Government to ensure practical and effective implementation of the new aviation security initiatives, together with the preservation and strengthening of access to regional air transport.

A4ANZ recognises that the aviation security environment is constantly evolving, and as such requires continual development and refinement of proportionate, practical and timely security measures. All A4ANZ's member airlines are supportive of measures to enhance security at Australia's airports; they have been, and will continue to work cooperatively and collaboratively with Government, airports, and the travelling public to ensure that what is put in place is informed by evidence and has the best chance of success.

It has become apparent that airports intend to pass the cost of the new security measures through to airlines in full, and in some cases, with the addition of a commercial profit margin. The unregulated environment in which our monopoly airports will now continue to operate has unfortunately made such practices not only possible, but common. On regional routes, where services are already marginal due to the poor economies of scale, there is no ability for airlines to pass on such costs to passengers. Hence increased airport charges will directly impact the bottom line of airlines, which in turn will affect the viability of the air services to these communities.

In order to ensure that airlines, and by extension, passengers, do not disproportionately bear the costs associated with the Government's proposed changes, A4ANZ is seeking the Government's consideration of the following measures in the short-term (FY 2020-2021):

- Greater investment to address the significant shortfall between the Government's existing investment in the enhanced security measures and the real costs of implementation. Estimates for the total cost of the policy's implementation range from \$1.3b (airline industry) to \$2b (AAA)^a – a stark difference from the existing \$50.1m allocated for these measures (which is limited to regional airports);
- Reallocating \$200M of airline industry money which was recently identified as over-recovered by AirServices Australia; back to the industry, to support significant capital and operational expenditure that the new security arrangements will require; and
- Including safeguards in legislation that expressly prohibit airports from adding commercial margins to the costs sought from airlines or Government for the implementation of mandated security measures, with an avenue for recourse if these provisions are not adhered to. This is especially critical, given the Government's recent decision not to adopt the ACCC's proposed reforms in the economic regulation of airports – changes which would have improved transparency on costs, encouraged greater collaboration, and facilitated efficient investment.

A4ANZ's recommendations have been made in the context of the Government's existing policy agenda, with a view to facilitating sound policy implementation, to keep the economy strong and guarantee the essential services on which all Australians rely.

^a Industry estimates have been provided as neither the Department of Home Affairs (making the policy and legislative changes) nor the Department of Infrastructure, Transport, Cities and Regional Development (responsible for policy implementation) have released estimates of the total cost of policy implementation.

ABOUT A4ANZ

A4ANZ is an industry group, established in 2017 to represent airlines based in Australia and New Zealand, including: Air New Zealand, QANTAS, Virgin Australia, Regional Express (REX), Jetstar and Tigerair. Member-funded and representing international, domestic, regional, full service and low-cost carriers, A4ANZ advocates on key public policy issues relevant to airline operations, including efficient access to domestic airport infrastructure.

The A4ANZ Board identified at the time of the organisation's formation that one of its highest priority issues was ensuring that the regulatory and pricing environment for monopoly airports:

- Encourages competition and innovation;
- More accurately reflects cost inputs;
- Accurately reflects a reasonable and fair return on assets;
- Keeps growth at reasonable not exponential rates;
- Supports investment and maintenance of infrastructure that is fit for purpose, efficient and timely; and
- Maintains accessible airfares for consumers across all areas of Australia and New Zealand.

BACKGROUND

A4ANZ recognises that the aviation security environment is constantly evolving, and as such requires continual development and refinement of proportionate, practical and timely security measures.

In the 2018-19 Federal Budget, the Government announced almost \$294 million to enhance security at Australian airports, including: \$122 million to increase police and border force presence and capability at nine major domestic and international airports, \$50 million to upgrade security infrastructure at 64 regional airports, and \$122 million to enhance screening capability for inbound air cargo and international mail.¹

A4ANZ commends the Government on its strong commitment to strengthening aviation security and acknowledges that these measures are currently being rolled out through airports across Australia.² We further recognise that as part of the new security measures announced in the 2018-19 Budget, over \$50 million in funding was earmarked to support regional airports to upgrade security.³ However, as noted by other industry stakeholders, including the Australian Airports Association (AAA), regional airports across Australia still face a significant shortfall to upgrade terminals and infrastructure to comply with the government's new security requirements.⁴ Furthermore, there was no allocation of funding for major airports, where the costs of implementation are in most cases significantly higher.

It is now evident that airports will pass the cost of these upgrades through to airlines in full, with the addition of a commercial profit margin in many cases. The unregulated environment in which our monopoly airports continue to operate has unfortunately made such practices not only possible, but common. On regional routes where services are already marginal due to the poor economies of scale, there is no ability for airlines to pass on such costs to passengers. Increased airport charges directly impact the bottom line of airlines, in turn affecting the viability of the essential air services to these communities.

PRACTICAL AND EFFECTIVE IMPLEMENTATION OF NEW SECURITY MEASURES

All A4ANZ's member airlines are supportive of measures to enhance security at Australia's airports; they have been, and will continue to work cooperatively and collaboratively with Government, airports, and the travelling public to ensure that what is put in place is informed by evidence and has the best chance of success.

However, we remain concerned of the likelihood of unintended negative consequences arising from both the timelines and costs of the new measures. These include but are not limited to:

- Increased costs to airlines through airports passing on the costs of - and adding margins to - new and additional technology;
- Increased costs to consumers through levies and/or increased ticket prices where costs cannot be absorbed by the airline;
- Reduction in services or complete cessation of services on regional routes due to unviability; and
- Productivity and employment losses due to route closures or reductions, especially in regional Australia.

Underpinning each of the above potential consequences is the fact that the current regulatory framework for Australia's airports allows them to pass on, in full, the cost of implementing security arrangements (regardless of whether this represents the most efficient cost) – and with the addition of a commercial margin – to airlines. That this scenario exists is neither fair, nor appropriate, given the importance of ensuring the security arrangements at Australia's airports are implemented in the most cost-effective manner, and supported by a viable aviation industry.

Further compounding our concerns surrounding the cost of implementing the new security measures, is the fact that, as far as we understand, neither the Department of Home Affairs nor the Department of Infrastructure, Transport, Cities, and Regional Development (DITCARD) have undertaken a Regulation Impact Statement (RIS) to quantify the impact of the new security measures. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] The absence of any meaningful analysis of the impact of the new security measures leaves the relevant Departments with an absence of knowledge and understanding of the economics of the aviation industry, and the likely impact on passengers.

[REDACTED]

[REDACTED]

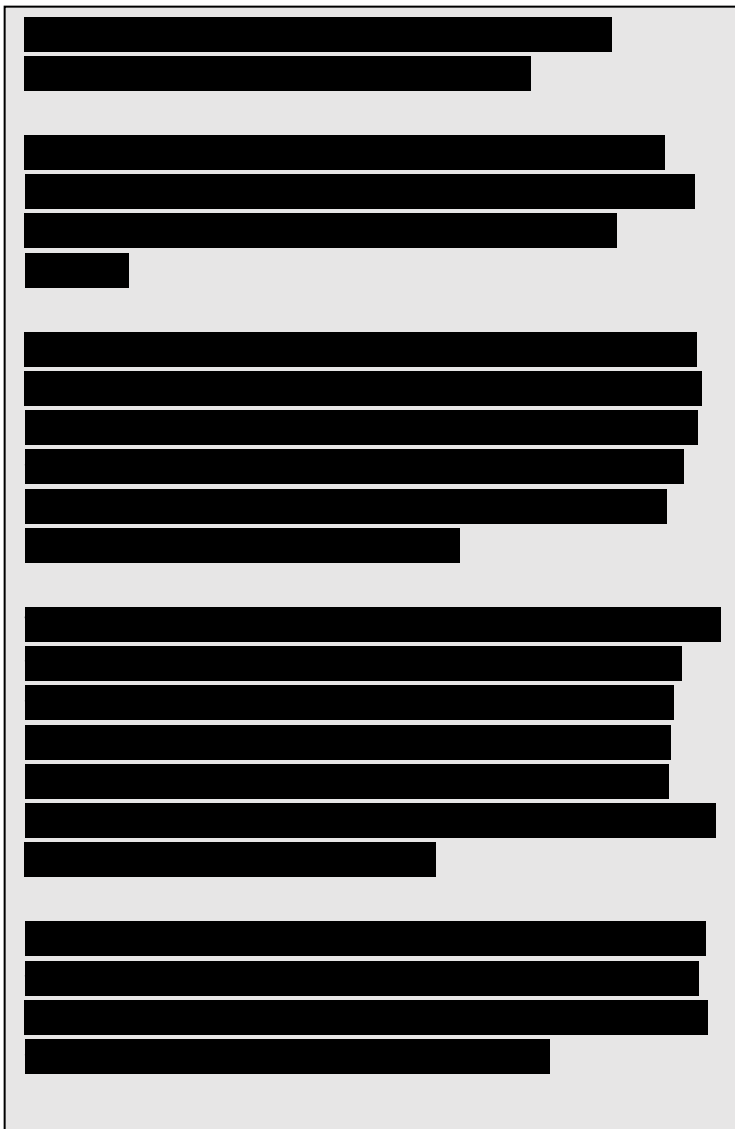
[REDACTED]

In order to address the unintended impacts on airlines and passengers, A4ANZ is calling on the Government to consider the following:

- Greater investment to address the significant shortfall between the Government's existing investment in these security measures and the real costs of implementation. Estimates for the total cost of the policy's implementation range from \$1.3b (airline industry) to \$2b (AAA) – a stark difference from the existing \$50.1m allocated for these measures (which is limited to regional airports);

- Reallocating \$200M of airline industry money which was recently identified as over-recovered by AirServices Australia; back to airlines, to support significant capital and operational expenditure that the new security arrangements will require;
- Including safeguards in legislation that expressly prohibit airports from adding commercial margins to the costs sought from airlines or Government for the implementation of mandated security measures, with an avenue for recourse if these provisions are not adhered to. This is especially critical, given the Government’s recent decision not to adopt the ACCC’s proposed reforms in the economic regulation of airports – changes which would have improved transparency on costs, encouraged greater collaboration, and facilitated efficient investment.

While these recommendations are essential to ensuring effective and efficient implementation of the new aviation security initiatives across all airports in Australia, they are critical to safeguard the viability and sustainability of regional aviation services – as explained in the detail below.



PRESERVING ACCESS TO REGIONAL AVIATION SERVICES

Air connectivity delivers significant positives for regional economies, businesses and communities, and – as the Deputy Prime Minister Michael McCormack said recently – for millions of Australians, air travel is not optional. In 2018, there were almost 25 million passenger movements through regional airports, representing approximately 16% of total Australian domestic air passengers movements in Australia. The economic contribution of the air transport industry in regional and remote Australia has been estimated to be approximately \$2.3 billion annually, and to provide employment for 15,000 full time equivalents. This is a significant contribution when considering the populations of regional areas.

A4ANZ’s members are proud to collectively offer close to 3000 services to and from these regions every week. The reality is, however, that the majority of the most expensive airports in Australia are in regional Australia – with costs in some ports more than five times those of the major airports.⁶

It is evident that airport charges are directly affected by infrastructure investment decisions. There is also a growing trend for local councils to grant long-term lease arrangements and management rights of an airport to a third-party operator, which in some cases, has led to gross over-investment in infrastructure, the costs of which are then passed on to airline customers.

Clearly, investment in infrastructure and upgrades are necessary – particularly given the new security measures, however A4ANZ believes that investment must be fit for purpose; that is, aligned with the needs of passengers using the facilities and demand for air services.

The best way to determine requirements and ensure this fit is through industry consultation. This would reduce overcapitalisation, such as creating international airports in regional areas where there is little current or predicted demand. Yet fewer than half of regional airports (~ 45%) reported that they consult with airlines prior to “major capital works entailing increased airport charges”.⁷

Airport charges are one of the biggest costs to an airline – after fuel and staff – and can represent a significant proportion of airfares. On regional and rural routes in particular, airport charges can add more than 30% to the base ticket price. One of biggest roadblocks to airlines’ ability to introduce new and grow existing routes is high airport charges.

Government has a role to play in ensuring that regional airports are prioritising efficient operations, so that consumers are not the ones ultimately paying for the infrastructure through high charges, and avoid scenarios such as those detailed in the case studies below.

While the behaviour outlined in these case studies should represent the exception, it is unfortunately a common occurrence across Australian airports – particularly regional airports operated by local councils.

CASE STUDY 1:

One regional airport, using the new security requirements as cover, has unveiled plans to double the existing terminal space (which was only updated in 2014), even though projected passenger growth is forecast at only 1% per year. In order to pay for this upgrade, the local council has proposed to increase the passenger levy by more than 200%.

Airlines have not been provided with any detailed financial modelling, and have effectively been asked to accept the business case at face value.

While we understand the need to upgrade elements of the terminal to accommodate new security measures, the upgrade should not come at the cost of diminishing residents’ access to essential air services, and risk making services to and from the regional airport unviable from an airline perspective, or unaffordable from a consumer perspective.

In either scenario, it will be the residents who lose out due to this short-term thinking. We believe that the current situation could have been avoided had the local council consulted with airlines at the very beginning of the planning for the upgrade.

A4ANZ is calling on the Government to:

- **Require airports that are recipients of grant funding to consult with airlines on all capital and operational changes which impact costs and charges; and**
- **Prohibit airports from adding a commercial margin to the costs of implementing mandated security measures.**

Funding on these conditions will not only ensure that regional communities are able to continue to access safe and efficient air transport, it will also assist in the Government’s goals to future proof regional Australia for generations to come with infrastructure that drives economic growth and connectivity.

CASE STUDY 2:

Another regional airport, in conjunction with enhanced security requirements, is planning to undertake a full terminal redevelopment. The multi-million redevelopment includes extending the departure hall, relocating and reconfiguring check in desks and screening points, updating the passenger lounge and the arrivals hall – altogether a significant undertaking.

These plans have been approved by the Board, and yet airlines – the major customers and users of the airport – have not been provided detailed demand data outlining why the works are required.

CONCLUDING COMMENTS

Given Australia's geography and distances between major cities, it is no surprise that Australia relies on an extensive domestic air network. But airlines and passengers shouldn't be expected to disproportionately shoulder the costs of progress.

Weak or uncompetitive Australian airlines will be less able to meaningfully contribute to Australia's economy through tourism, employment and investment. A multi-faceted approach to implementing the new security initiatives – one that involves genuine industry engagement and consultation, and Government support – is required to ensure that both the community needs of regional Australia and those of the broader economy are met, through sensible policy and a regulatory environment that encourages innovation and efficiency.

Our member airlines are already working cooperatively and collaboratively with Government, the airports, and the travelling public, to ensure that the measures implemented are informed by evidence and have the best chance of success. However, many of our airports – facing no competitive market pressures – are unwilling to work collaboratively on efficiencies or cost-sharing, preferring instead to use the security upgrades as an opportunity to increase profits. Without Government intervention or safeguards, there is nothing to prevent these well-established practices by airports from continuing, particularly given the Government's recent decision not to adopt reforms recommended by the ACCC which would have addressed these issues.

The issue of enhanced domestic aviation security measures requires an immediate solution – and an investment of funds – to ensure the sustainability of routes, and the viability of the Australian aviation sector overall.

CONTACT

Dr Alison Roberts

Chief Executive Officer

Airlines for Australia & New Zealand

E: a Roberts@a4anz.com

W: www.a4anz.com

¹ Australian Government. 2018. 2018-19 Federal Budget Papers. At: <https://archive.budget.gov.au/2018-19/>

² The Hon Peter Dutton MP. 2019. Joint Media Release with the Hon Scott Morrison MP, Prime Minister - Keeping Australians safe at airports [06/12/19] At: <https://minister.homeaffairs.gov.au/peterdutton/Pages/Keeping-Australians-safe-at-airports.aspx>

³ Ibid.

⁴ Australian Airports Association. 2019. <https://airports.asn.au/media-releases/sustainable-funding-for-regional-security-upgrades-essential/>

⁵ Rural and Regional Affairs and Transport Legislation Committee. 2019. Hansard – Senate Estimates from 21 October 2019.

⁶ These figures are based on cost/passenger, including security charges. Data source: QF and VA submissions.

http://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Northern_Australia/TourismIndustry/Submissions

⁷ Australian Airports Association. 2018. AAA Submission to the Rural and Regional Affairs and Transport References Committee.