



24 February 2011

Mr David Tansey  
Director – Major Policy Initiatives  
Aviation Security Branch  
Department of Infrastructure & Transport  
GPO Box 594  
Canberra City ACT 2601

Dear Mr Tansey,

## **POSSIBLE SECURITY CLASSIFICATION FOR AUSTRALIAN AIRPORTS DISCUSSION PAPER**

### **The RAAA and its Members**

The Regional Aviation Association of Australia (RAAA) was formed in 1980 as the Regional Airlines Association of Australia to protect, represent and promote the combined interests of its regional airline members and regional aviation throughout Australia.

The Association changed its name in July 2001 to the Regional Aviation Association of Australia and widened its charter to include a range of membership, including regional airlines, charter and aerial work operators, and the businesses that support them.

The RAAA has 27 Ordinary Members (AOC holders) and 55 Associate/Affiliate Members. The RAAA's AOC members directly employ over 5,000 Australians, many in regional areas. On an annual basis, the RAAA's AOC members jointly turnover more than \$1b, carry well in excess of 2 million passengers and move over 23 million kilograms of freight.

RAAA members operate in all States and Territories and include airlines, airports, engineering and flight training companies, finance and insurance companies and government entities. Many of RAAA's members operate successful and growing businesses providing employment and economic sustainability within regional areas.

Some examples of RAAA members' presence in regional Australia is the REX hub in Wagga Wagga, SkyWest in WA, Sharp Aviation in Hamilton, Kimberley Aviation at Broome, Airnorth, Chartair and Vincent Aviation Northern Territory networks, West Wing Aviation in Mt Isa and Skytrans operations from Cairns, to name a few.

*Serving regional aviation, and through it, the people and businesses of regional Australia*

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## **RAAA Charter**

The RAAA's Charter is to promote a safe and viable regional aviation industry. To meet this goal the RAAA:

- promotes the regional aviation industry and its benefits to Australian transport, tourism and the economy among government and regulatory policy makers;
- lobbies on behalf of the regional aviation industry and its members;
- contributes to government and regulatory authority policy processes and formulation to enable its members to have input into policies and decisions that may affect their businesses;
- encourages high standards of professional conduct by its members; and
- provides a forum for formal and informal professional development and information sharing.

The RAAA provides wide representation for the regional aviation industry by direct lobbying of Ministers and senior officials, through parliamentary submissions, personal contact and by ongoing, active participation in a number of consultative forums.

## **RAAA RESPONSE TO DISCUSSION PAPER**

### **General Issues**

We welcome the government's acknowledgement that passenger and baggage screening requirements impose substantial costs on the industry (both capital and operational) and that there should be flexibility in the settings that determine the levels of security applying.

We also highlight that the regional aviation industry must rely on the threat analysis of OTS and can only react to draft security policies in a limited way and without the full policy context. All security measures presumably flow from detailed threat analyses, the competence of which the regional aviation industry must take on trust.

Clearly, the lower the number of passengers over which security screening costs can be spread, the higher the per-passenger cost will be. Whilst costs and passenger numbers vary from airport to airport, when the pass-through costs becomes too high, passengers will reassess their travel options and airlines will reassess the economies of operating a route. This is already happening and in our view will escalate from July 2012 when the trigger for security screening is lowered to 20,000kg MTOW (possibly 19,000kg or 21,000kg given recent industry discussions).

The proposed classification model seeks to improve the flexibility around screening requirements at airports and, in particular, smaller airports and aircraft. Flexibility beyond the 20,000kg MTOW criteria is introduced through criteria involving passenger numbers and lower cost forms of screening.

Moving to lower cost forms of security screening means that government and community expectations about security can continue to be met but at a lower cost that, in the circumstances, will be more manageable for industry participants and passengers.

The government should be aware that the imposition of ever increasing costs on the industry is having a detrimental effect and that there will be resulting ongoing change within the market.

It is well documented that worldwide, the industry has struggled for profitability despite major adjustments by participants to lower their costs and simplify their business models. Some airlines reportedly make better returns on their associated businesses (ie frequent flyer) than they do on their traditional airline business. Governments must take note that passenger ticket prices are relatively inelastic and cost increases cannot always be passed onto passengers. Low cost airlines are a niche market that often skews the expectations of passengers travelling on regional and full service (and safety?) airlines.

Compared to large airports, small and regional airports cannot rely very much on cross-subsidisation of the aviation business with other forms of revenue raising such as car parking and retail as they do not have the volumes required.

Many airport owners (typically local or shire councils in regional areas) will be required to divert capital from other projects or to borrow to fund the capital outlays necessary to set up the screening requirements and will have difficulty recovering this cost and the operating costs over time. Frequent anecdotal evidence suggests that some that have already made the outlay are now finding it difficult to recover the capital and operating costs from airport-related revenue.

Given economies of scale, regional and rural passengers already pay more for aviation services than city passengers, and as costs continue to grow, the effect will be disproportionately felt in small, regional and rural markets. In addition, regional communities will probably also see an increased loss of services as smaller aircraft types become less viable and airlines withdraw from smaller routes. This is evidenced by a nearly 50% reduction in RPT routes in the past 25 years. While some reduction is expected with the withdrawal of smaller aircraft the loss is too high, affecting regional communities ability to attract skilled workers.

In summary, the industry cannot continue to absorb cost increases without the possibility of negative structural effects occurring such as increasing industry loss and a decreasing number of industry participants who will focus their services predominantly on the high volume, large city markets. With the forthcoming withdrawal of the regional en-route subsidy, regional airlines will be even less able to absorb increased security costs. It is likely that services will be withdrawn from lower passenger routes and resources will be diverted to more profitable routes. Regional and rural communities will be the losers.

### Specific comments

- ➔ The proposed 9 classification approach will introduce greater flexibility into the current security screening regime, which is welcomed, but it does not adequately address the real security risks and does not respond adequately to the cost effect of the regime. MTOW has been used as the primary determiner of security requirements but we question whether MTOW is the best criteria on which to base a security screening regime and, in our view, other issues should be considered in determining security levels. The principal criteria in determining security levels should be the actual local risk context for the airports concerned, and (as is proposed) overall passenger numbers across which the cost of measures can be spread is also a key criteria.
- ➔ We take the view that a 20,000kg MTOW limit is too low. Whilst broadly speaking, large MTOW aircraft often equate to higher security risk passenger airports, this is not always the case. Typically, as overall passenger numbers through an airport decrease, the MTOW becomes less relevant than the overall passenger numbers and the location specific security risk at the airport.
- ➔ The use of the 20,000kg (currently 30,000kg) limit is often not successful in dropping out smaller aircraft because RPT operators with a service within half an hour of the larger aircraft are automatically caught. The result is that operators with smaller aircraft that would otherwise not attract the screening requirement are being screened and, with their considerably lower economies of scale, are effectively cross subsidising the costs for larger aircraft that are required to be screened. This sometimes occurs where an aircraft operator decides it wishes its passengers to be screened although they are not actually required under the regulations to be screened. With implementation of the 20,000kg criteria in July 2012, this problem will increase. From an operational point of view, separation of screened and unscreened passengers at the departure points is not sufficient to overcome this problem. Whilst regional operators with aircraft below the 20,000kg limit do seek to adjust their schedules to avoid the half hour window, this is not always possible, and they will therefore continue to be affected and to bear the costs.

- ➔ The proposed regime does not attempt to make any real assessment of the actual security risk at any airport, despite the fact that the measures are implemented and paid for on an airport-by-airport basis. The current regime leaves each airport to devise its own response, purchase and install its own equipment, develop its own expertise, secure maintenance contractors, screening operators, etc. Recognising the enormous financial and administrative burden this creates, the discussion paper seeks to address this by varying screening levels and creating transitional arrangements using high level criteria. Whilst increased flexibility is welcome, we do not think it goes far enough and, as far as we know, is not based on actual security risk analysis. In fact, the regime relies on a general approach based on MTOW and passenger numbers which does not necessarily equate to real risk. The current airport-by-airport implementation and recovery approach can only be justified if it is based on a thorough airport-by-airport security assessment. We therefore submit that the proposed approach justifies only a general, network-wide approach to implementation and cost pass-through. It should be noted that a network-wide approach to implementation and pricing, if coordinated nationally, could also introduce major economies of scale that could reduce the overall cost on an airport-by-airport basis. Network-wide pricing could smooth the variation in cost that airlines and passengers will experience, minimising the substantial effect on regional operators and passengers. In summary, we submit that if the government wishes to apply a regime that assumes risk based on high level criteria, then a network approach to screening is required – all paid for by a single network-wide charge that is the same per passenger no matter where that passenger originates.
- ➔ The introduction of overall passenger numbers as a criterion is welcome but the 20,000 and 40,000 passenger criteria are too low. Without having data in relation to passenger numbers at each airport, we submit that the economies of scale and subsequent pass-through becomes a real issue at airports with up to 150,000 departing passengers. This is not to say that airports with greater passenger numbers can readily manage. Anecdotal evidence suggests that even airports of this size are struggling with the initial set up cost and keeping the pass-through within acceptable limits to airlines and passengers. We understand that some airports of this size are unable to pass through the full cost of their screening and may therefore need to consider other funding solutions including increases on council rates.
- ➔ We suggest that passenger number criteria be added into categories 7, 8 and 9 to ensure that low passenger number routes do not face different security outcomes simply because they are serviced by larger than 10,750kg aircraft. As cost increases continue to grow and economic efficiencies become more important, it may be that operators will seek to move to larger aircraft on less-frequent schedules in order to continue to provide services on low passenger routes. In such situations, one aircraft may be used on different routes to maximise utilisation. The proposed regime will penalise operators and passengers when aircraft go over 20,000kgs even though the route may be a low passenger volume route.

- ➔ Providing additional time to meet security requirements or a transitional period is a good idea and recognises that there are considerable financial and logistical issues to be addressed that may take time. We support strongly realistic transitional timeframes.
- ➔ We also support the idea that different levels of screening may be appropriate for different levels of risk and different economies of scale. However we would expect that passengers screened to a lower level will be accommodated at the arriving airport and possibly re-screened if their journey continues. As a result, airports will need to make arrangements for these passengers. In our experience, most but not all airports will provide this service at no additional cost to airlines. It would be disappointing if the proposed regime minimised the cost for airlines by permitting lower screening levels for those passengers but those savings are lost when the airline is charged to bring those passengers to an airport with higher screening requirements. This is already occurring in at least one instance.
- ➔ Finally, we note that airline operators are sometimes delegated as the screening authority in smaller, regional airports. In these situations, the airport operator may prefer not to manage the process and may consider that efficiencies of scale can be achieved by the airline. In these situations an airline operator becomes the monopoly provider of security services to all airlines at that airport with the final say about what security costs are incurred and how they are passed through to all operators.

Thank you for the opportunity to comment on the Possible Security Classification for Australian Airports Discussion Paper and please feel free to call on 02-6162 0305 for any further clarification.



Paul Tyrrell  
Chief Executive Officer