Australian Government

Department of Infrastructure, Transport, Regional Development and Communications

# Passenger security screening enhancements – case studies on financial impacts at six regional airports

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Please note these case studies were undertaken and finalised prior to the effects of COVID-19 being felt by the aviation industry. The case studies are a point in time analysis, based on data received from the airports and underpinned by a set of assumptions that pre-date the pandemic. Within those parameters they provide high level estimates of costs or savings expected to be achieved with security screening under normal market conditions and regular aviation activity.

The Government has subsequently announced several relief packages for the Australian aviation industry, including the $715m Aviation Assistance Package announced on 18 March 2020. As part of this program, regional airports affected by the changes set out in this report may be able to seek grant assistance for capital works required to implement the new screening requirements at their airport. Airlines will also be able to seek grant assistance for the cost of security screening between 1 February and 30 September 2020 on the condition that they have already paid invoices supplied to them by airports. The Government will closely monitor the impact of the virus on the industry and consider what additional measures may be required as circumstances evolve.

** The figures presented in this report are estimates only, developed on the basis of information gathered in late 2019 and early 2020. They are subject to change and should be read as indicative only.*

# Chapter 1: Introduction

## 1.1 Regional Aviation

Regional aviation plays a key role in economic and social connectivity for regional Australia. Aviation supports regional communities by providing essential access to health care, education, legal and financial services.

Aviation is vital in supporting economic growth in these communities by connecting regionally based businesses to domestic and international markets, and has been a key enabler of growth in mining, agriculture and tourism in many of Australia's regions.

The House of Representatives Standing Committee on Infrastructure, Transport and Cities noted in its inquiry into the role of transport connectivity on stimulating development and economic activity (2016) that transport connectivity is integral to the liveability, economic opportunities and competitiveness of a region.[1] It underpins the role of regional cities and towns as service access hubs and nodes in the national transport network; raising competition in markets to both stimulate and shift economic activity.

The Senate Standing Committee on Rural and Regional Affairs and Transport examined the challenges faced by regional airports and aviation service providers in its report on the operation, regulation and funding of air route service delivery to rural, regional and remote communities.[2] The key issues considered included: the remoteness of rural and regional communities, and the importance of access to key infrastructure and support services; a deregulated and privatised aviation sector, and the effect on participation of airlines in regional markets; the challenges of funding regional airports; and the challenges to economic viability for airlines operating in remote areas, due to economies of scale and market forces.

## 1.2 Aviation Security

The Australian Government is committed to strengthening Australia’s comprehensive and strong aviation security system to ensure safe and secure air travel. The evolving nature of terrorism continues to test and shape Australia’s aviation security standards and regulatory settings. The disrupted terrorist plot at Sydney Airport in July 2017 highlighted the innovation and determination of individuals seeking to inflict harm on the travelling public. It also reinforced that aviation remains a high profile and ongoing target for terrorists.

Through the Department of Home Affairs (Home Affairs), the Government continues to review security settings in the context of evolving threats and, if required, adjusts security settings accordingly. In 2018, to keep ahead of the evolving threat environment, the Government announced that major and regional airports will upgrade their security screening technology.

Once implemented, Home Affairs estimates that 99%, or 80.5 million departing passengers, will depart from an airport which undertakes security screening with advanced X-ray technology and body scanners.

Home Affairs applies security settings in the aviation sector based on an assessment of the level of security risk at each airport, and the aircraft it hosts. Home Affairs works to ensure that security requirements are commensurate with risk, particularly in regional areas, where security costs are generally higher. Based on the evolving threat, Home Affairs is amending the security screening threshold from one based on an aircraft’s maximum take-off weight to one based on aircraft seating capacity, which also takes into account airport annual passenger numbers.

One result of a screening threshold based on aircraft size (weight or seating capacity), is that airports may have some flights which require screening and some flights which do not require screening. This has been a longstanding and contentious issue for industry stakeholders, with conflicting views on the best regulatory approach.

Airports must implement security screening in accordance with regulatory requirements. An airport may choose to implement security arrangements beyond the regulatory requirement, such as screening all passengers, even when not required by the regulator. Business decisions like this are a matter for the airport, although stakeholders presented strong and divergent views on the merits of this approach. Some stakeholders raised concerns that permitting segregation of screened and unscreened passengers within the same operational period can lead to inefficient capital investment at airports. Some stakeholders have also indicated that the discretion afforded to airports to choose whether to screen above their regulatory requirement adds significant complexity to airport and airline negotiations.

Noting different approaches can cause significant variation in the cost implications for different stakeholders, some stakeholders indicated a preference for spreading fixed costs across a broader passenger base, suggesting it would minimise passenger impacts, while other stakeholders argued that additional costs for operators of smaller aircraft impact the viability of their operations. Costs associated with managing potential co-mingling of screened and unscreened passengers within an airport are also relevant considerations.

The challenge is to maintain the integrity of the entire aviation security network while recognising the differences in risk across international and major domestic aviation operations in comparison to regional and remote aviation. Maintaining a risk based, proportionate security framework is critical to ensuring public confidence in aviation and to support a viable and sustainable regional aviation industry.

It has been a longstanding policy of successive governments that industry is responsible for the cost of security, including operating costs, although some stakeholders have queried the long term sustainability of this approach. The majority of regional airports required to upgrade screening equipment already conduct security screening and are responsible for managing the associated costs.

The Australian Government has committed $50.1m through the Regional Airport Security Screening Fund to support the purchase of new screening equipment at eligible regional airports.

## 1.3 Case Studies

The case studies presented in this paper examine the costs of security screening in a representative range of regional airports. This examination has been brought about by the Aviation, Air Cargo and International Mail Security Package announced as part of the 2018-19 Budget which includes changes to strengthen passenger screening requirements at a number of regional airports. The focus is on providing an estimate of the operational cost of passenger screening at regional airports that is as transparent as possible, noting the need to restrict the release of sensitive information regarding aviation security arrangements and that data was provided by airports themselves and has not been externally validated. Where airports have provided estimates of any additional capital expenditure on terminal changes needed to accommodate screening equipment, this information has been included in the report.

Using point in time data and a series of underlying assumptions, this paper summarises potential costs and savings and provides further context for the operation of case study airports, but does not presuppose the decisions airport owners may make about managing or recovering costs of

security screening. The costings presented are based on providing the mandated level of passenger and baggage screening.

The effect of changing passenger screening costs on airfares, service frequency or routes depends on commercial decisions made by aviation businesses. Regional airport operators, usually local government, make decisions about whether and how their operating costs are passed on to airport customers. Direct customers can include airlines, retailers, passengers and other air operators. It is important to understand that airlines determine ticket prices on the basis of a broad range of factors, one of which is passenger screening costs. Some screening cost estimates in the paper are represented on a per passenger basis, but this does not necessarily equate to a change in ticket prices.

Airports were selected to cover a range of regional airport locations, community compositions, flight departure profiles, passenger volumes and existing screening requirements. The selected airports are Rockhampton QLD, Wagga Wagga NSW, Geraldton WA, Whyalla SA, Kingscote SA and Longreach QLD.

## 1.4 Stakeholders

In preparing the case studies, the Department of Infrastructure, Transport, Regional Development and Communications (Infrastructure) engaged with key stakeholders, including the case study airports and relevant airlines, to ensure the projected changes (positive and negative) to the ongoing operational costs of security screening are robust. While stakeholders have been closely involved in preparing the report, they do not necessarily endorse its contents.

Information and estimates to inform the security screening costings were gathered from Home Affairs and the six case study airport operators. Data on regional aviation and communities was gathered from the Bureau of Infrastructure, Transport and Regional Economics (BITRE), the Australian Bureau of Statistics (ABS), the Australian Trade and Investment Commission (Austrade) and local government reports.

## 1.5 Methodology and assumptions

The key determinants of operating costs for passenger screening are equipment maintenance costs, hours of operation for screening, number of personnel required to conduct screening and cost of personnel.

The case study airports provided point in time estimates of these key determinants under the current and new screening requirements, which were used to calculate an annual passenger screening cost. While the methodology applied in the case studies seeks to remain consistent across each airport, where airports have directly provided information on the total or per passenger costs of screening, these have been given precedence.

The types of information available and factors included in some baseline costs varied considerably across the different case study airports.

Where available, airport estimates of the costs for terminal alterations to accommodate the new screening arrangements have been referenced, but this capital expenditure has generally not been included in the per passenger estimates. In some cases, the required capital expenditure for these airports may be significant.

Some airports indicated that the figures they have provided are not inclusive of all the costs of providing security screening. Additional factors which may not have been included in these case studies but are relevant to the cost of security screening can include insurance, operating costs

such as electricity and consumables, changes over time such as inflation and wages growth, replacement of equipment at the end of its life, and the cost of financing terminal changes needed to meet the screening requirements.

It should be noted that the methodology for determining the costs associated with security screening is highly contested. Airlines have raised concerns about the transparency and scope of costs that are included in security screening charges. In particular, airlines have indicated concern about how airports pass on costs for management of security arrangements, cost for financing of capital expenditure and the depreciation of capital assets, including assets funded by government grants. Airlines have queried how these issues should be reflected in security screening charges.

The Western Australia Department of Transport has developed a Strategic Airport Asset and Financial Management Framework that aims to enable a consistent, transparent and documented approach to the management of airports across Western Australia. The approach aims to enable prudent financial management of airport assets and setting of airport charges that are supported by relevant stakeholders. The Australian Government has agreed to undertake a review to analyse the Framework's suitability for application across all jurisdictions.[3]

Comparison between the current and new screening requirements have used data that is as consistent as possible, but care should be taken when comparing the costs between different case study airports.

Schedules and passenger numbers take Regular Public Transport (RPT) flights into account, but do not include charter flights. Advice from BITRE indicates there are very few charter flights on these routes that require screening. Flight schedules are subject to change and can have a significant impact on the cost of providing screening.

Issues around how the airport and the relevant airline client(s) manage the pass on of security screening costs, and how the airline then treats the costs are commercial matters for these entities. The treatment of security screening costs by airports and airlines will vary based on these entities' individual commercial considerations.

A key consideration for both airlines and airports in this context is how any cost increase will impact passenger volumes, along with subsequent impacts for the broader regional economy and community. A range of issues, including limited data on demand elasticities, has prevented further analysis of these potential downstream impacts and is out of scope for these case studies. However, some stakeholders have emphasised they expect the broader economic implications to be significant with the commercial viability of some routes potentially impacted.

The case studies include a "cost per screened passenger" calculation which assumes the only flights screened are those required to be screened in accordance with the regulatory requirements and that all flights out of an airport operate with the same load factor (i.e. how full a plane is). Data restrictions (such as commercially sensitive information relating to airline market share) are among a range of factors preventing more detailed analysis in this context. It should further be stated that data provided was point in time and based on various assumptions, as such, costs per screened passenger are provided for comparative measures only. It should also be noted this calculation does not account for any costs incurred by the airport due to necessary terminal modifications. Stakeholders have indicated in some circumstances these additional costs may be significant.

Where airports have provided advice on how the costs will be passed on to airport users, this information has been included.

# Chapter 2: Case Studies

## 2.1 Rockhampton

### 2.1.1 Regional profile

The Rockhampton Region lies on the Tropic of Capricorn approximately 600 kilometres north of Brisbane. It encompasses the three urban centres of Rockhampton, Gracemere and Mount Morgan, as well as several smaller townships. The Fitzroy River runs through the region and provides a reliable water supply for communities, pasture and agriculture. Rockhampton has long served as a major regional centre, providing a hub for business, employment and services for Central Queensland. Food processing and tourism are both significant features of the regional economy.


**Figure 1: Rockhampton routes in September 2019**

#### Community

- Council land area: 6,570 square kilometres[4]
- Population 2018: 81,067[4]
- Average population growth 2013-2018: -0.2%[4]
- Council revenue 2018: $195 million[5]
- Council expenditure 2018: $183 million[5]

#### Economy

- Number of businesses 2018: 5,121[4]
- Unemployment rate 2016: 9.2%[4]
- Annual tourist visits 2018 (all transport modes): 1,290,000[6]
- Annual tourist expenditure 2018: $422 million[6]

#### Aviation

- Airport operator: Rockhampton Regional Council
- Annual outbound RPT passengers 2018: 275,553[7]
- Annual outbound RPT flights 2018: 4,778[7]
- Flight destinations: Brisbane, Mackay
- Airlines: Qantas Airways, Virgin Australia
- Aircraft types commonly serving airport: Dash 8 400, Fokker 100, Boeing 737-800
- BITRE airfare spot check July 2018:[a]
  - Rockhampton to Brisbane $180 & $204 (518 kilometres)
  - Rockhampton to Mackay $151 (279 kilometres)
- All RPT passengers are currently screened at Rockhampton Airport

[a] BITRE conducted spot checks of all city pair airfares on 5 July 2018. The cheapest outbound airfare on 9 August 2018 was collected for each outbound Rockhampton route.

Figure 2: Top 10 Industries by Employment - Rockhampton[4]

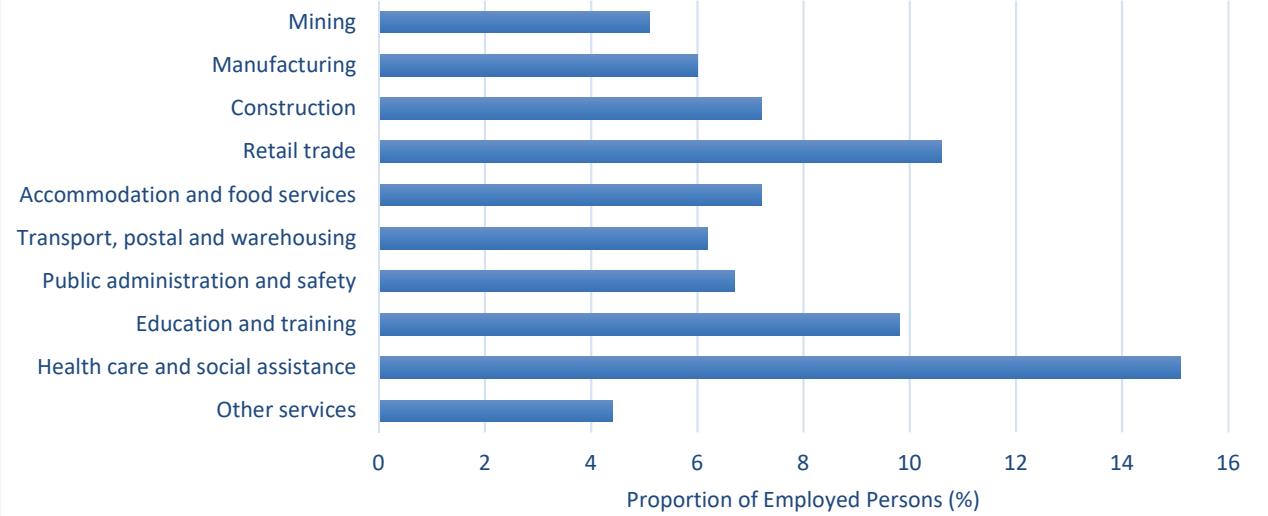
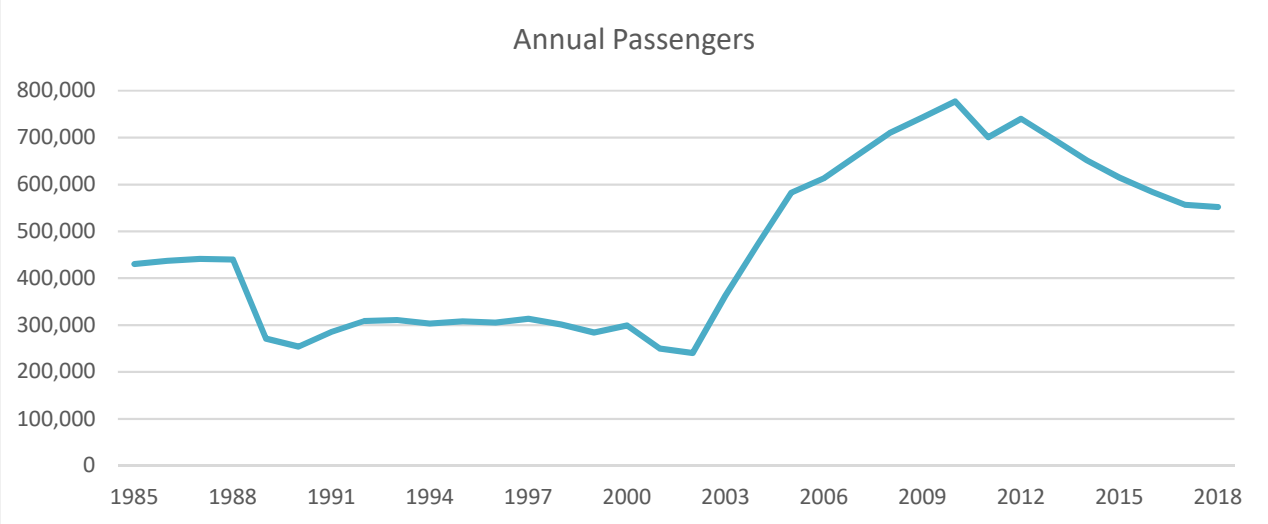



Figure 3: Aviation trends - Rockhampton Airport[7]



### 2.1.2 Security screening

Security screening at Rockhampton Airport is provided by a contracted service provider.

In September 2019, there were 84 outbound flights scheduled each week, all of which were over both the current aircraft weight screening threshold and the new seating capacity screening threshold.[b]

Operating costs for the current screening operations represented in Section 2.1.2.1 and the new security settings represented in Section 2.1.2.2 have been provided directly by Rockhampton Airport.

Rockhampton Airport currently has a passenger and checked baggage screening charge of $3.78 per passenger and a checked baggage screening infrastructure charge of $0.80 (GST inclusive). These fees apply to both outbound and inbound passengers.

#### 2.1.2.1 Current screening arrangements

Both the current screening arrangements estimated in this section and the proposed screening arrangements estimated in the section below require all flights which are currently scheduled out of Rockhampton to be screened. Rockhampton Airport has advised it seeks to recover 100% of the operating costs of security screening from airlines.

Table 2.1 Estimated annual cost of screening under the current arrangements for Rockhampton

| Maintenance of equipment[c] | Number of staff to conduct screening[d] | Daily hours of operation[e] | Staff cost per hour[f] | Total screening operating cost[g] |
|---|---|---|---|---|
| $140,000 | 7 | 15 | $50 | $2,311,000 |

Rockhampton Airport uses an outbound and inbound passenger basis for pass-on of security screening costs. Under the current screening arrangements, this is $4.58 per passenger (GST inclusive).[h]

#### 2.1.2.2 Proposed screening arrangements

The Australian Government has committed $50.1m through the Regional Airport Security Screening Fund to support the purchase of new screening equipment at eligible regional airports and on this basis the capital costs associated with equipment purchase have not been considered.

Table 2.2 Estimated annual cost of screening under the new arrangements for Rockhampton

| Maintenance of equipment | Number of staff to conduct screening | Daily hours of operation | Staff cost per hour | Total screening operating cost[i] |
|---|---|---|---|---|
| $240,000 | 8 | 15 | $50 | $2,612,000 |

[b] Flight schedules for each route were gathered from airline websites on 30 September 2019.
[c] Maintenance costs have been estimated on the basis of information provided by Rockhampton Airport.
[d] Number of required staff has been advised by Rockhampton Airport.
[e] Daily hours of operation has been provided by Rockhampton Airport.
[f] Hourly personnel costs for screening staff has been provided by Rockhampton Airport.
[g] Total screening operating costs for 2019-20 estimated on the basis of advice from Rockhampton Airport.
[h] Rockhampton Airport published screening charges 2019-20.
[i] Total security screening operating cost estimate for 2020-21 provided by Rockhampton Airport.

Rockhampton Airport uses an outbound and inbound passenger basis for pass-on of security screening costs. Under the new screening arrangements, Rockhampton Airport advises this will be $5.13 per passenger (GST inclusive).

Rockhampton Airport estimates transition costs of $1.1 million for the screening arrangements for terminal changes and upgrades necessary to install and house the new screening equipment. The airport has incorporated this capital expenditure, apportioned over 20 years, into the per passenger screening cost above. This expenditure is not eligible for support through the Regional Airport Security Screening Fund.

#### 2.1.2.3 Summary

The estimated difference in annual security screening operating costs at Rockhampton Airport is $301,000.

With respect to Rockhampton Airport's model of passing on security screening costs apportioned to both inbound and outbound passengers, Rockhampton Airport has advised that the additional security screening cost per passenger under the new screening requirements will be $0.55. This includes additional operational costs associated with the new screening requirements, changes to accommodate the new equipment and a component to account for inflation and wage growth.

In the context of Rockhampton Airport's high passenger volume for a regional airport, its model for apportioning security screening costs to both inbound and outbound passengers and the well established existing security screening arrangements, this case study indicates that the new security screening requirements are expected to have a relatively low impact on airport security screening costs apportioned per passenger.

## 2.2 Wagga Wagga

### 2.2.1 Regional profile

The Wagga Wagga region includes the city of Wagga Wagga and nine surrounding villages. The city is located on the Murrumbidgee River, midway between Sydney and Melbourne. It is the major regional centre for the Riverina area, with a diverse economy providing education, health and other services.


**Figure 4: Wagga Wagga routes in September 2019**

#### Community

- Council land area: 4,824 square kilometres[8]
- Population 2018: 64,820[8]
- Average population growth 2013-2018: 0.8%[8]
- Council revenue 2018: $146.7 million[9]
- Council expenditure 2018: $124.7 million[9]

#### Economy

- Number of businesses 2018: 5,498[8]
- Unemployment rate 2016: 5.5%[8]
- Annual tourist visits 2018 (all transport modes): 1,373,000[10]
- Annual tourist expenditure 2018: $378 million[10]

#### Aviation

- Airport operator: Wagga Wagga City Council
- Annual outbound RPT passengers 2018: 108,385[7]
- Annual outbound RPT flights 2018: 3,519[7]
- Flight destinations: Sydney, Melbourne
- Airlines: Qantas Airways, Regional Express Airlines
- Aircraft types commonly serving airport: Saab 340, Dash 8 300, Dash 8 400
- BITRE airfare spot check July 2018:[j]
  - Wagga Wagga to Sydney $164 & $171 (365 kilometres)
  - Wagga Wagga to Melbourne $171 (363 kilometres)
- Some RPT passengers are currently screened at Wagga Wagga Airport

[j] BITRE conducted spot checks of all city pair airfares on 5 July 2018. The cheapest outbound airfare on 9 August 2018 was collected for each outbound Wagga Wagga route.

Figure 5: Top 10 Industries by Employment - Wagga Wagga[8]

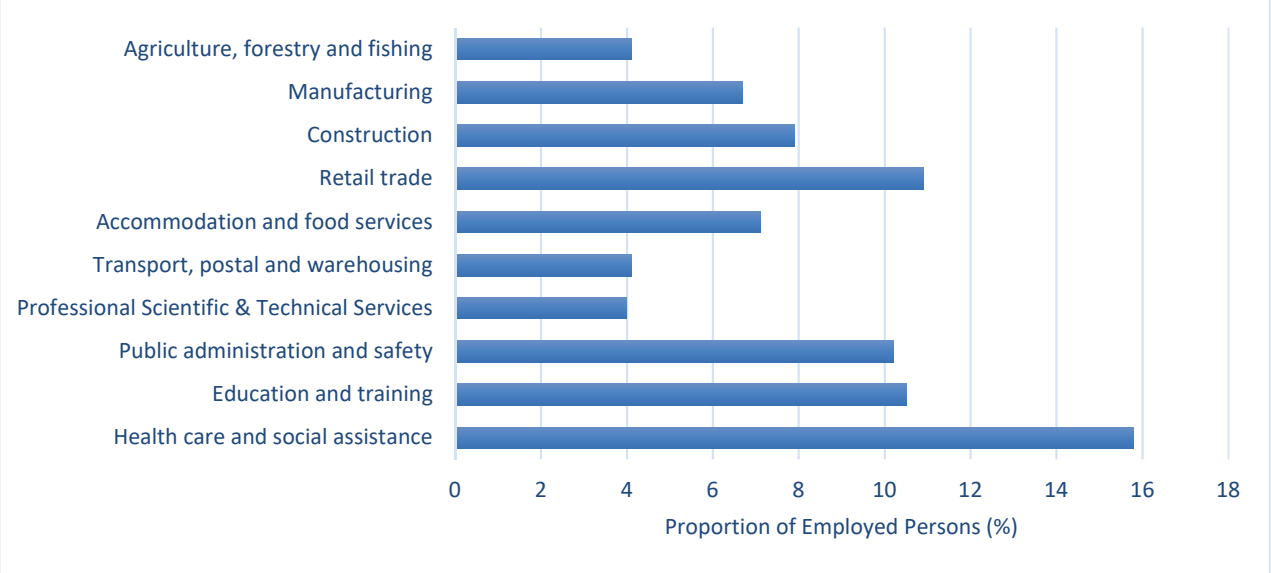
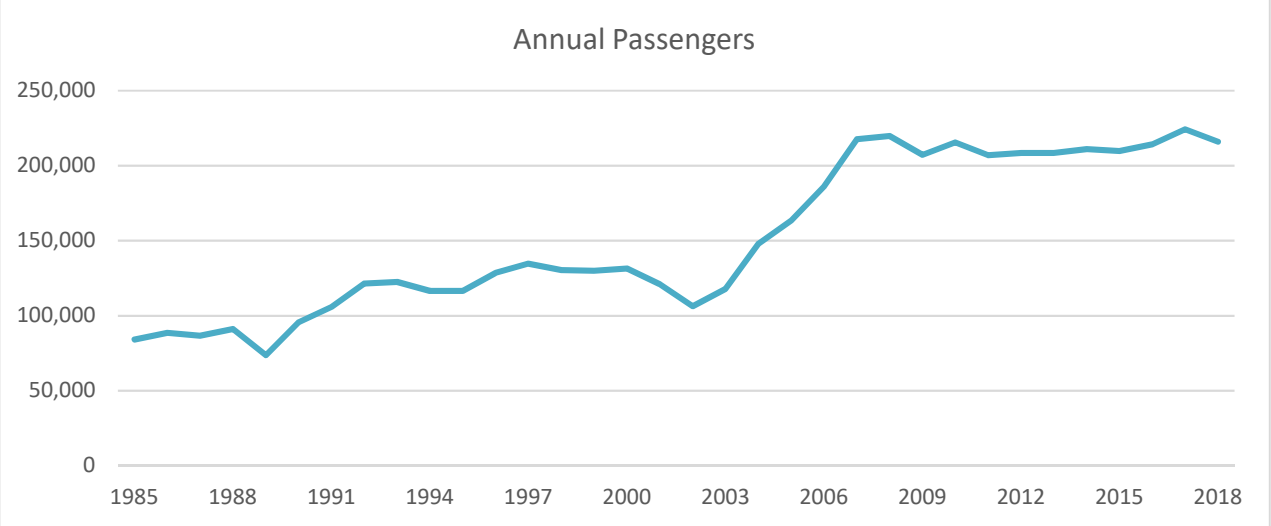



Figure 6: Aviation trends – Wagga Wagga Airport[7]



### 2.2.2 Security screening

Security screening at Wagga Wagga Airport is delivered by a contracted provider.

In September 2019, there were 21 outbound flights scheduled each week falling over the current aircraft weight screening threshold and 26 flights which will be over the new seating capacity screening threshold.[k]

Operating costs for the current security screening operations represented in Section 2.2.2.1 and the new security settings represented in Section 2.2.2.2 have been provided by Wagga Wagga Airport.

Wagga Wagga Airport has advised it seeks to recover 100% of the operating costs of security screening from airlines.

#### 2.2.2.1 Current screening arrangements

The case presented here for the current screening arrangements represents only those flights which require screening under the current regulatory requirements. This is in line with Wagga Wagga Airport's advice that it currently only screens flights as required by the regulations.

Table 2.3 Estimated annual cost of screening under the current arrangements for Wagga Wagga – only flights over the weight threshold are screened

| Maintenance of equipment[l] | Number of staff to conduct screening[m] | Daily hours of operation[n] | Staff cost per hour[o] | Total screening operating cost |
|---|---|---|---|---|
| $40,900 | 5 | 12 | $46 | $1,048,000 |

On an outbound passenger basis, this is equivalent to approximately $21.20 per screened passenger. Data on airline passenger numbers is commercially sensitive, so this assumes all flights have the same load factor to estimate the number of screened passengers at about 49,500 per year[p]. For comparison, the screening charge in 2019-20 is $16.87 per screened outbound passenger (GST inclusive).[q]

#### 2.2.2.2 Proposed screening arrangements

The Australian Government has committed $50.1m through the Regional Airport Security Screening Fund to support the purchase of new screening equipment at eligible regional airports and on this basis the capital costs associated with equipment purchase have not been considered.

While Wagga Wagga Airport will continue to have a mix of aircraft sizes, some over and some under the new threshold for security screening, only the costs associated with delivering mandatory security screening have been examined. Wagga Wagga Airport has indicated it will consider screening all outbound RPT passengers due to its mix of services and limited terminal footprint.

[k] Flight schedules for each route were gathered from airline websites on 30 September 2019.
[l] Maintenance costs have been provided by Wagga Wagga Airport
[m] Number of required screening staff has been provided by Wagga Wagga Airport
[n] Average daily hours of screening operation has been advised by Wagga Wagga Airport
[o] Hourly personnel costs for screening staff has been advised by Wagga Wagga Airport
[p] Based on aircraft type and flight schedules gathered from airline websites on 30 September 2019.
[q] Wagga Wagga City Council published fees and charges 2019-20.

Table 2.4 Estimated annual cost of screening under the new arrangements for Wagga Wagga - only flights over the seating capacity threshold are screened

| Maintenance of equipment | Number of staff to conduct screening | Daily hours of operation | Staff cost per hour | Total screening operating cost |
|---|---|---|---|---|
| $40,900 | 7 | 12 | $46 | $1,451,000 |

This equates to $25.20 per screened passenger. This assumes all flights have the same load factor to estimate the number of screened passengers at about 57,500 per year.

Wagga Wagga Airport has advised that $20.05 per outbound passenger will be passed on to the relevant airline as the cost for security screening provisions under the new arrangements, noting the airport has indicated it will consider screening all outbound passengers. This approach would impact the cost per passenger and have further implications for the commercial and economic dynamics on the route.

The airport also advised that under the new regulatory requirements, 39.5% of airport operating expenditure will be spent on passenger and baggage screening, highlighting the significant contribution that security screening makes to an airport's overall cost base.

#### 2.2.2.3 Summary

The comparison between the current and new security arrangements presented here examines the approach of screening and charging only passengers on flights that are over the screening threshold.

Wagga Wagga Airport advised that it will pass on the full per passenger screening cost of $20.05 to airlines and that this will be an increase of 40%. At 40%, the increase in passenger screening pass-on to the relevant airline is proportionally significant.

Wagga Wagga Airport has also advised that it expects to incur a cost of $285,000 to make terminal infrastructure changes necessary to accommodate the new screening equipment.

## 2.3 Geraldton

### 2.3.1 Regional profile

Greater Geraldton is located 420 kilometres north of Perth and includes the coastal city of Geraldton, the inland town of Mullewa and Greenough settlement. The Greater Geraldton area has a diversified economy, based on industries including mining, fishing, aquaculture, agriculture, manufacturing, construction, health care, retail and tourism.


**Figure 7: Geraldton routes in September 2019**

#### Community

- Council land area: 9,909 square kilometres[11]
- Population 2018: 38,738[11]
- Average population growth 2013-2018: -0.6%[11]
- Council revenue 2018: $79.3 million[12]
- Council expenditure 2018: $76.2 million[12]

#### Economy

- Number of businesses 2018: 3,132[11]
- Unemployment rate 2016: 8.8%[11]
- Annual tourist visits 2018 (all transport modes): 547,000[13]
- Annual tourist expenditure 2018: $209 million[13]

#### Aviation

- Airport operator: City of Greater Geraldton
- Annual outbound RPT passengers 2018: 58,099[7]
- Annual outbound RPT flights 2018: 1,147[7]
- Flight destinations: Perth
- Airlines: Qantas Airways
- Aircraft types commonly serving airport: Fokker 100
- BITRE airfare spot check July 2018:[r]
  - Geraldton to Perth $189 & $211 (370 kilometres)
- All RPT passengers are currently screened at Geraldton Airport

[r] BITRE conducted spot checks of all city pair airfares on 5 July 2018. The cheapest outbound airfare on 9 August 2018 was collected for each outbound Geraldton route.

Figure 8: Top 10 Industries by Employment – Greater Geraldton[11]

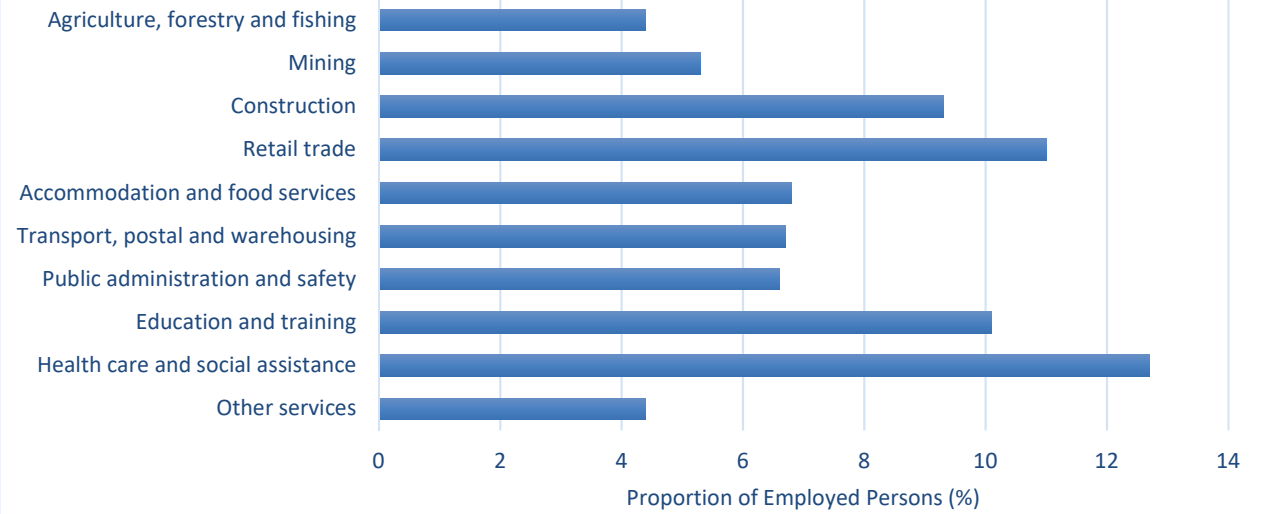
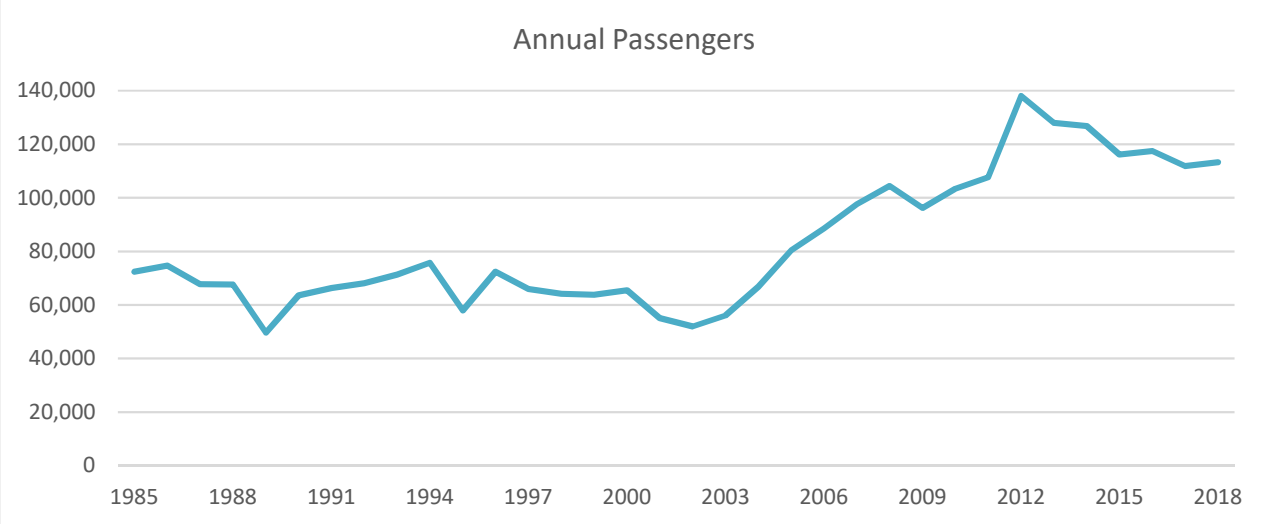



Figure 9: Aviation trends - Geraldton Airport[7]



### 2.3.2 Security screening

Security screening at Geraldton Airport is provided by a contracted service provider.

Geraldton Airport has advised that $985,000 annually is currently expended in delivering mandated security screening, being 18.25% of the total annual airport operating expenditure. This excludes depreciation and the cost of equipment replacement.

In September 2019, there were 16 outbound flights scheduled each week, all of which were over both the current aircraft weight screening threshold and the new seating capacity screening thresholds.

Geraldton Airport has also advised that it does not pass on 100% of security screening costs to airlines. Under the existing screening requirements, $950,000 of the total $985,000 cost of security screening provision is passed on to the relevant airline, representing a gap of 3.5%.

Operating costs for the current screening operations represented in Section 2.3.2.1 and the new security settings represented in Section 2.3.2.2 have been estimated on the basis of advice from Geraldton Airport.

#### 2.3.2.1 Current screening arrangements

Both the current screening arrangements estimated in this section and the proposed screening arrangements estimated in the section below require all flights which are currently scheduled out of Geraldton to be screened.

Table 2.5 Estimated annual cost of screening under the current arrangements for Geraldton

| Maintenance of equipment[s] | Number of staff to conduct screening[t] | Daily hours of operation[u] | Staff cost per hour[v] | Total screening operating cost[w] |
|---|---|---|---|---|
| $135,000 | 7 | 7 | $49 | $985,000 |

This equates to a cost of $17 per screened passenger, noting there may be additional operating costs that have not been factored in to this model. The Geraldton Airport passenger security screening fee in 2018-19 was $19 per screened passenger (including GST).[x]

#### 2.3.2.2 Proposed screening arrangements

The Australian Government has committed $50.1m through the Regional Airport Security Screening Fund to support the purchase of new screening equipment at eligible regional airports and on this basis the capital costs associated with equipment purchase have not been considered.

[s] Maintenance costs have been provided by Geraldton Airport
[t] Number of required screening staff has been provided by Geraldton Airport
[u] Average daily hours of operation has been provided by Geraldton Airport
[v] Hourly personnel costs for screening staff been provided by Geraldton Airport
[w] Total screening operating cost for 2018-19 provided by Geraldton Airport
[x] Geraldton Airport published fees and charges 2018-19.

Table 2.6 Estimated annual cost of screening under the new arrangements for Geraldton

| Maintenance of equipment | Number of staff to conduct screening | Daily hours of operation | Staff cost per hour | Total screening operating cost |
|---|---|---|---|---|
| $145,000 | 8 | 7 | $49 | $1,147,000 |

This estimate of the total operating cost equates to a cost of $19.70 per screened passenger, noting this may not include all relevant factors.

#### 2.3.2.3 Summary

The difference in annual estimated security screening operating costs at Geraldton Airport is $162,000, which equates to a difference per outbound passenger of $2.70.

Geraldton Airport has advised it expects to spend $22,000 to undertake terminal works necessary to accommodate the new security screening equipment.

This examination suggests the cost impact overall of the new screening requirements at Geraldton Airport is relatively modest.

## 2.4 Whyalla

### 2.4.1 Regional profile

Whyalla is located 385 kilometres northwest of Adelaide on the Upper Spencer Gulf. The local economy is focused around the Whyalla steelworks, production of oil, LPG and salt, as well as shipping of steel products and ore. The town's industrial history and nearby marine environments have also created opportunities for tourism.

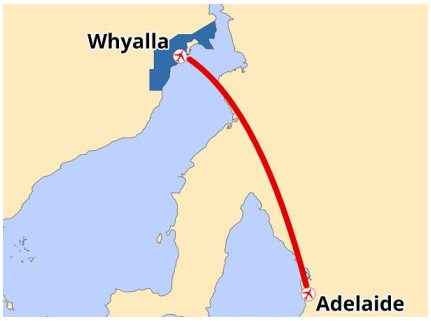



**Figure 10: Whyalla routes in September 2019**

#### Community

- Council land area: 1,072 square kilometres[14]
- Population 2018: 21,766[14]
- Average population growth 2013-2018: -0.8%[14]
- Council revenue 2018: $31.1 million[15]
- Council expenditure 2018: $29.9 million[15]

#### Economy

- Number of businesses 2018: 674[14]
- Unemployment rate 2016: 12.4%[14]
- Annual tourist visits 2018 (all transport modes): 147,000[16]
- Annual tourist expenditure 2018: $68 million[16]

#### Aviation

- Airport operator: Whyalla City Council
- Annual outbound RPT passengers 2018: 38,437[7]
- Annual outbound RPT flights 2018: 1,841[7]
- Flight destinations: Adelaide
- Airlines: Qantas Airways, Regional Express Airlines
- Aircraft types commonly serving airport: Saab 340, Dash 8 300
- BITRE airfare spot check July 2018:[y]
  - Whyalla to Adelaide $143 & $149 (231 kilometres)
- Security screening does not currently take place at Whyalla Airport

[y] BITRE conducted spot checks of all city pair airfares on 5 July 2018. The cheapest outbound airfare on 9 August 2018 was collected for each outbound Whyalla route.

Figure 11: Top 10 Industries by Employment - Whyalla[14]

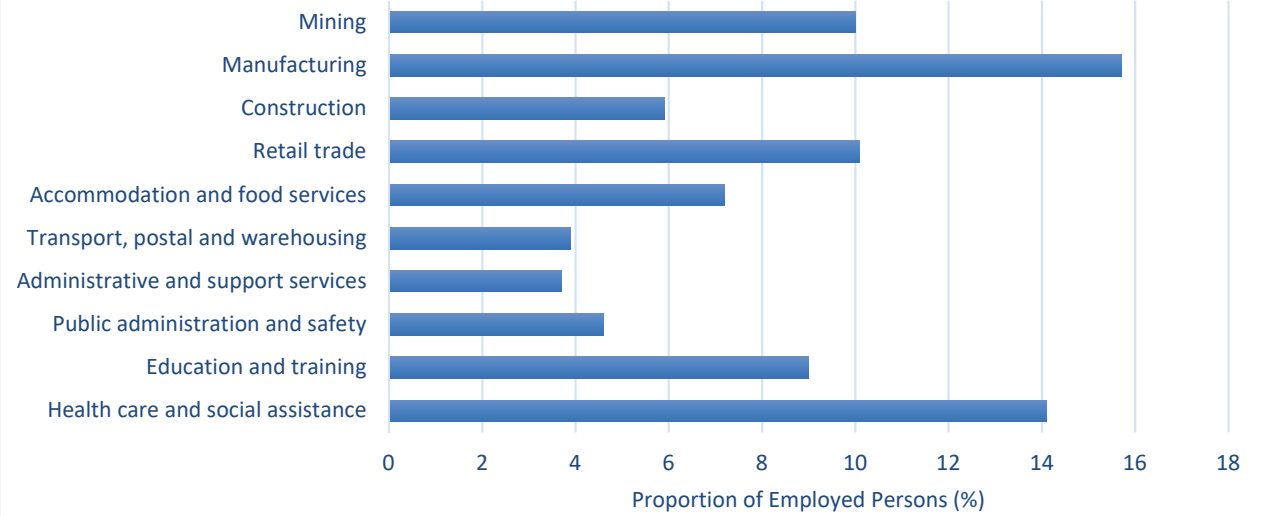
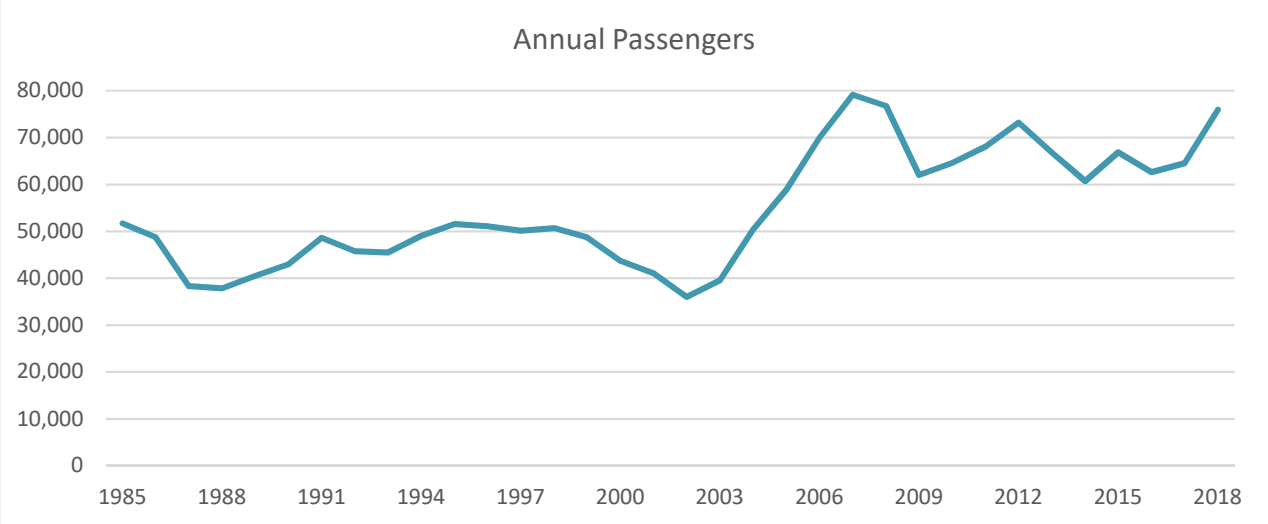



Figure 12: Aviation trends - Whyalla Airport[7]



## 2.4.2 Security screening

In September 2019, there were 44 outbound flights scheduled each week from Whyalla Airport. Of these, no flights were over the current aircraft weight screening threshold and Whyalla Airport is not currently required to conduct screening. However, 16 of these flights are over the new seating capacity screening threshold, so Whyalla will be required to implement passenger and checked baggage screening for the first time.

Operating costs for the new security settings represented in Section 2.4.2.1 have been estimated on the basis of advice provided by Whyalla Airport.

Whyalla Airport has advised that Whyalla Council will oversee the provision of aviation security screening and this is expected to be delivered by a contracted provider.

### 2.4.2.1 Proposed screening arrangements

The Australian Government has committed $50.1m through the Regional Airport Security Screening Fund to support the purchase of new screening equipment at eligible regional airports and on this basis the capital costs associated with equipment purchase have not been considered.

Whyalla is the only airport represented in these case studies which will be required to implement security screening for the first time. Whyalla Airport has indicated it will conduct substantial terminal works to accommodate the new screening equipment and update the terminal at an estimated cost of $6 million.

Like Wagga Wagga, Whyalla will serve a mix of aircraft where only some of the aircraft are required to be screened. The case presented here only examines the new security requirements for passenger and baggage screening mandated under the new regulatory requirements.

Whyalla Airport has advised that it will seek to pass on 100% of security screening provision costs to airlines and it intends to screen all departing RPT passengers.

Table 2.7 Estimated annual cost of screening under the new arrangements for Whyalla - only flights over the seating capacity threshold are screened

| Maintenance of equipment[z] | Number of staff to conduct screening[aa] | Daily hours of operation[bb] | Staff cost per hour[cc] | Total screening operating cost[dd] |
|---|---|---|---|---|
| $69,000 | 5 | 10 | $56 | $899,000 |

On an outbound passenger basis, this equates to a cost per screened passenger of $51.20, based on Whyalla Airport only screening passengers required to be screened by the regulations. Data on airline passenger numbers is commercially sensitive, so this assumes all flights have the same load factor to estimate the number of screened passengers at about 17,500 per year[ee].

Whyalla Airport noted there would be additional costs, risks and operational difficulties associated with managing the screening of some departing aircraft, while not screening others. If Whyalla

[z] Maintenance costs are projected figures provided by Whyalla Airport
[aa] Number of required staff at any one time has been advised by Whyalla Airport
[bb] Average daily hours of operation has been estimated based on daily flight and screening timing variances, per seven days, as advised by Whyalla Airport
[cc] Hourly personnel costs for screening staff have been averaged based on daily flight schedule across seven days and associated hourly cost schedule information advised by Whyalla Airport
[dd] Total screening operating cost estimate has been provided by Whyalla Airport.
[ee] Based on aircraft type and flight schedules gathered from airline websites on 30 September 2019.

Airport were to adopt this approach, the difficulties would decrease the efficiency of airport operations and also impose additional costs when flights were delayed.

#### 2.4.2.2 Summary

The commencement of security screening at Whyalla Airport is expected to create significant new and ongoing security screening operating costs for the airport, estimated at $899,000 per annum.

The estimated additional $51.20 cost per screened passenger, if passed on in full by the airport and, subsequently, passed on in full by the relevant airline may represent a 35% increase in ticket price (see footnote y in Section 2.4.1). In addition, Whyalla Airport will seek to recover the cost of the substantial terminal works conducted to update the terminal and accommodate the screening equipment.

## 2.5 Kingscote

### 2.5.1 Regional profile

Kangaroo Island is 120 kilometres directly southwest of Adelaide. The island is accessible via an 18 kilometre ferry ride from Fleurieu Peninsula into the town of Penneshaw and by flights into the airport near the largest town of Kingscote. Agriculture, particularly sheep, grains, forestry and fishing, are major contributors to the economy. It is also a major tourism destination with a large portion of the island set aside for national and conservation parks.


**Figure 13: Kingscote routes in September 2019**

#### Community

- Council land area: 4,401 square kilometres[17]
- Population 2018: 4,933[17]
- Average population growth 2013-2018: 1.3%[17]
- Council revenue 2018: $15.1 million[18]
- Council expenditure 2018: $16.4 million[18]

#### Economy

- Number of businesses 2018: 718[17]
- Unemployment rate 2016: 5.2%[17]
- Annual tourist visits 2018 (all transport modes): 151,000[19]
- Annual tourist expenditure 2018: $114 million[19]

#### Aviation

- Airport operator: Kangaroo Island Council
- Annual outbound RPT passengers 2018: 23,444[7]
- Annual outbound RPT flights 2018: 1,137[7]
- Flight destinations: Adelaide, Melbourne
- Airlines: Qantas Airways, Regional Express Airlines
- Aircraft types commonly serving airport: Saab 340, Dash 8 300
- BITRE airfare spot check July 2018:[ff]
  - Kingscote to Adelaide $139 (112 kilometres)
- Infrastructure airfare spot check September 2019:[gg]
  - Kingscote to Melbourne $255 (680 kilometres)
- Some RPT passengers are currently screened at Kingscote Airport

[ff] BITRE conducted spot checks of all city pair airfares on 5 July 2018. The cheapest outbound airfare on 9 August 2018 was collected for the outbound Kingscote to Adelaide route.

[gg] The Kingscote to Melbourne route was not included in BITRE's 2018 data set, as it was not operating at the time of testing. Infrastructure conducted a supplementary spot check on 30 September 2019. The cheapest outbound airfare on 22 December 2019 was collected for the Kingscote to Melbourne route. For the purpose of comparison, the Kingscote to Adelaide route was $154 on 22 December 2019.

Figure 14: Top 10 Industries by Employment - Kangaroo Island[17]

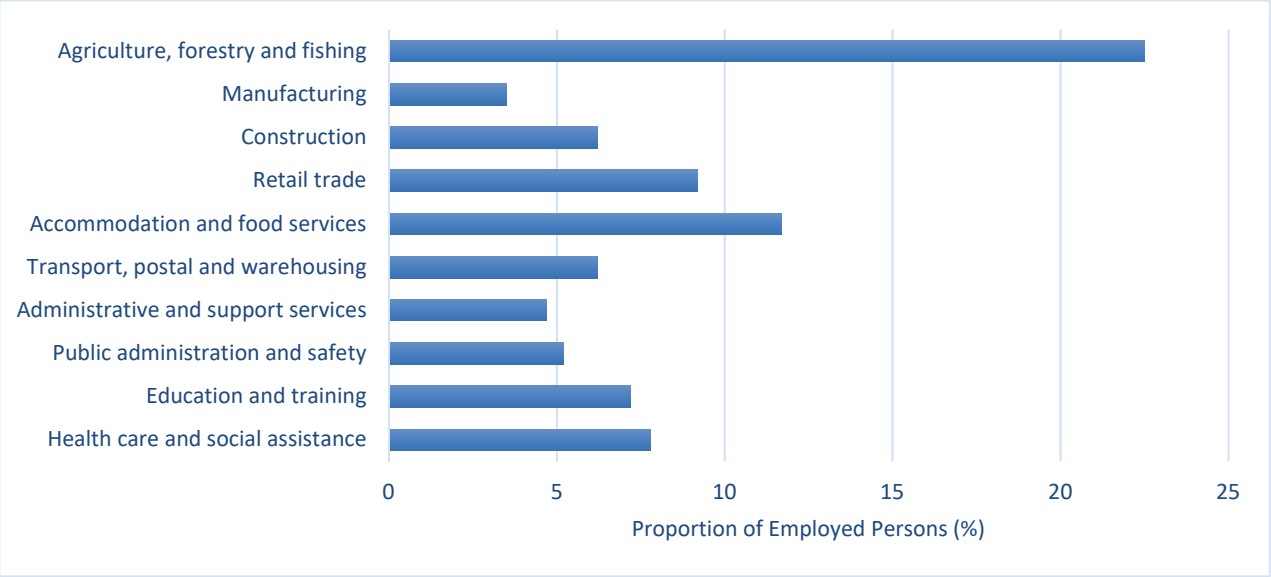
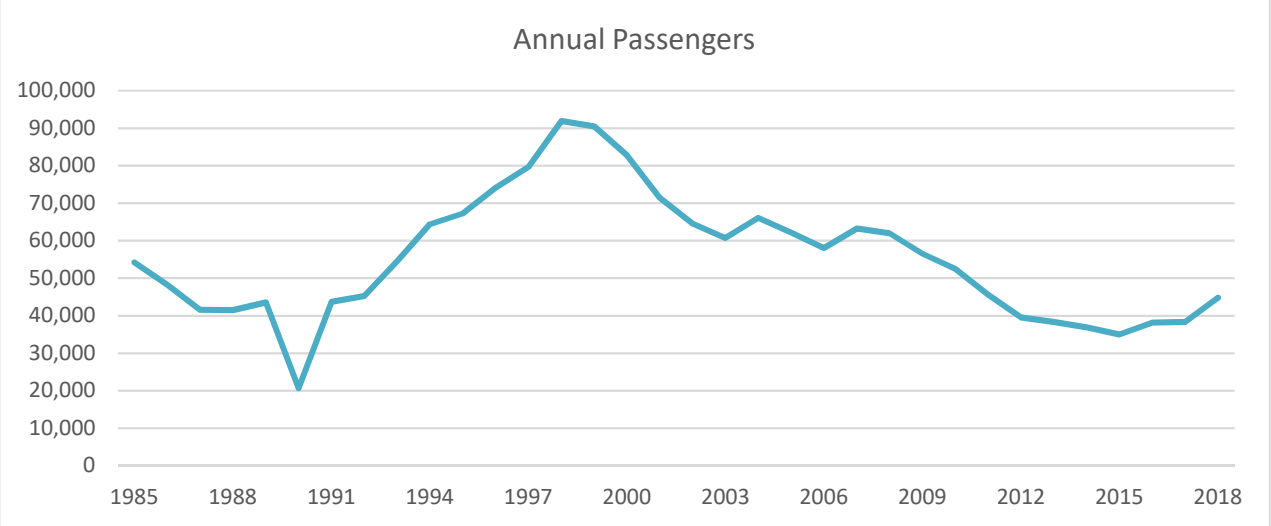



Figure 15: Aviation trends - Kingscote Airport[7]



### 2.5.2 Security screening

Security screening at Kingscote (Kangaroo Island) Airport is provided by a contracted service provider.

Kingscote Airport has indicated that 6% ($78,000) of total airport operating expenditure of $1.3 million is spent on security screening.

In September 2019, there were 22 outbound flights scheduled each week, of which no flights were over the current aircraft weight screening threshold. Flights requiring screening under the current regulations only occur in the six week summer season from December to January.

Due to the addition of an airport annual passenger threshold in the new screening arrangements, Kingscote will not be required to screen any aircraft going forward, even if the specific aircraft is over the seating capacity threshold.

Operating costs for the current security screening operations delivered by Kingscote Airport have been provided by the airport and are represented in Section 2.5.2.1.

#### 2.5.2.1 Current screening arrangements

Kingscote does not currently host aircraft over the aircraft weight screening threshold on a year round basis. There are three Dash 8-400 flights to Melbourne per week between mid-December and the end of January every year, which require screening. Only passengers traveling on these 19 flights each year are screened. Kingscote Airport has advised that in the two summer seasons in which it has operated screening, it did not seek to recover the full operating costs of passenger screening from the relevant airline.

Table 2.8 Estimated annual cost of screening under the current arrangements for Kingscote – only flights over the weight threshold are screened

| Maintenance of equipment[hh] | Number of staff to conduct screening[ii] | Average daily hours of operation[jj] | Weeks of operation each year[kk] | Staff cost per hour[ll] | Total screening operating cost |
|---|---|---|---|---|---|
| $21,000 | 6 | 1.7 | 6 | $70 | $78,000 |

Given the short six-week schedule of screened flights seasonally, it is difficult to determine the per passenger cost for current screening arrangements.

But given Kingscote Airport will no longer be required to screen under the new arrangements, the annual/seasonal screening cost of $78,000 is a suitable figure to represent the reduction in operational costs to this airport under the new screening requirements.

[hh] Maintenance costs have been provided by Kingscote Airport.
[ii] Screening staff requirements have been advised by Kingscote Airport.
[jj] Screening point daily hours of operation are based on advice from Kingscote Airport about the average hours over summer.
[kk] Flights to Melbourne on aircraft above the screening threshold are operated for approximately six weeks each year between mid-December and the end of January.
[ll] Hourly personnel costs for screening staff have been advised by Kingscote Airport.

#### 2.5.2.2 Summary

Removal of the requirement for Kingscote Airport to screen passengers creates the potential for a reduction in annual operating costs for the airport. Under the new screening requirements, the annual cost saving to the airport may amount to $78,000.

However, business decisions made by airports and airline clients include a range of factors, which may impact on how potential cost savings are treated and allocated.

## 2.6 Longreach

### 2.6.1 Regional profile

The Longreach Region is situated 700 kilometres from the coast in Central West Queensland, west of Rockhampton. The region encompasses the outback townships of Longreach, Ilfracombe, Isisford and Yaraka. Longreach serves as the administrative centre for the region and is home to the Australian Stockman's Hall of Fame, Qantas Outback Founders Museum and Longreach Powerhouse Museum. The main industries are cattle and sheep production and tourism.


**Figure 16: Longreach routes in September 2019**

### Community

- Council land area: 40,572 square kilometres[20]
- Population 2018: 3,530[20]
- Average population growth 2013-2018: -3.0%[20]
- Council revenue 2018: not published
- Council expenditure 2018: not published

### Economy

- Number of businesses 2018: 601[20]
- Unemployment rate 2016: 3.6%[20]
- Annual tourist visits 2018 (all transport modes): 124,000[21]
- Annual tourist expenditure 2018: $68 million[21]

### Aviation

- Airport operator: Queensland Airports Limited
- Annual outbound RPT passengers 2018: 17,380[7]
- Annual outbound RPT flights 2018: 542[7]
- Flight destinations: Brisbane, Winton
- Airlines: Qantas Airways, Regional Express Airlines
- Aircraft types commonly serving airport: Saab 340, Dash 8 400
- BITRE airfare spot check July 2018:[mm]
  - Longreach to Brisbane $395 (989 kilometres)
  - Longreach to Winton $80 (170 kilometres)
- All RPT passengers are currently screened at Longreach Airport

[mm] BITRE conducted spot checks of all city pair airfares on 5 July 2018. The cheapest outbound airfare on 9 August 2018 was collected for each outbound Longreach route.

Figure 17: Top 10 Industries by Employment - Longreach[20]

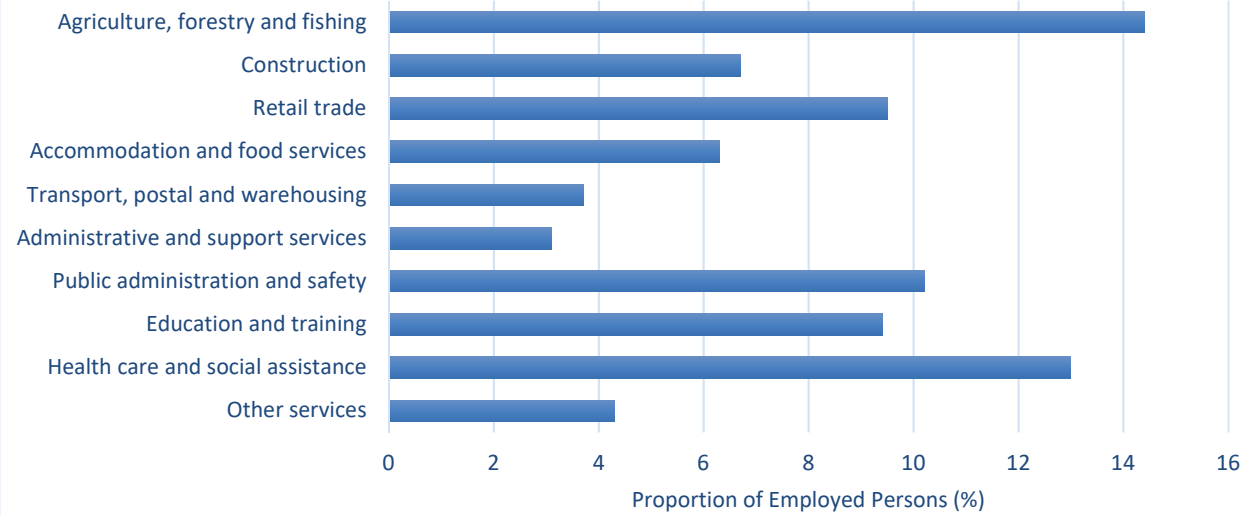
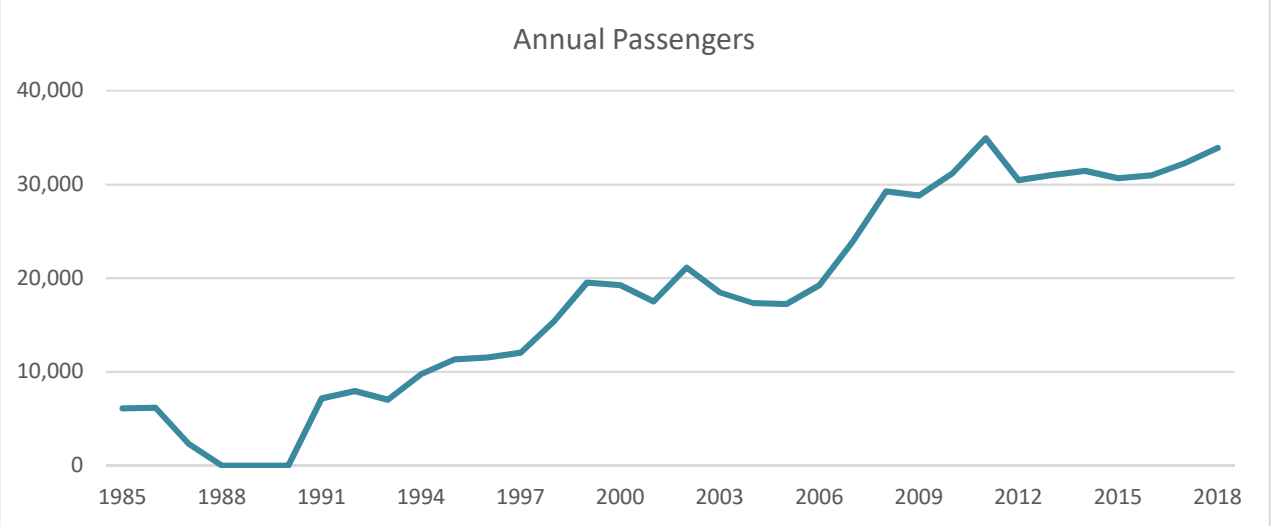



Figure 18: Aviation trends - Longreach Airport[7]



## 2.6.2 Security screening

Security screening at Longreach Airport is provided by a contracted service provider.

In September 2019, there were nine outbound flights scheduled each week, of which seven flights were over both the current aircraft weight screening threshold and the new 40 passenger capacity screening threshold. Currently, scheduled flights to Brisbane are all above the screening size thresholds, while scheduled flights to Winton are below the screening size thresholds.

Due to the addition of an airport annual passenger threshold in the new screening arrangements, Longreach Airport will not be required to screen any aircraft under the new screening threshold, even if the individual aircraft is over the new seating capacity threshold.

Operating costs for the current security screening operations represented in Section 2.6.2.1 have been provided by Queensland Airports Limited.

### 2.6.2.1 Current screening arrangements

Longreach Airport serves a mix of aircraft where only some of the aircraft are required to be screened. Currently, all passengers departing on RPT services are screened and the total security screening operating cost has been provided by Queensland Airports Limited on this basis.

Table 2.9 Annual operating cost of screening under the current arrangements for Longreach – all flights are screened, regardless of whether they are over the weight threshold

| Maintenance of equipment[nn] | Number of staff to conduct screening[oo] | Daily hours of operation[pp] | Staff cost per hour[qq] | Total screening operating cost[rr] |
|---|---|---|---|---|
| $72,000 | 6 | 4 | $35 | $515,000 |

The current passenger and checked bag screening charge is $18.30 per inbound and outbound passenger (GST exclusive).[ss]

### 2.6.2.2 Summary

Changes to the screening thresholds which remove the requirement for Longreach Airport to screen any flights creates potential for a significant reduction in annual operating costs of $515,000. Based on this, there could be a reduction in ticket prices, but business decisions like how cost savings are treated and allocated are influenced by a range of factors.

[nn] Maintenance costs have been advised by Queensland Airports Limited (QAL) on behalf of Longreach Airport.
[oo] Number of required screening staff have been advised by QAL on behalf of Longreach Airport.
[pp] Daily hours of operation have been advised by QAL on behalf of Longreach Airport.
[qq] Hourly personnel costs for screening staff have been advised by QAL on behalf of Longreach Airport.
[rr] Total screening costs have been advised by Queensland Airports Limited (QAL) on behalf of Longreach Airport.
[ss] Longreach Airport published screening charge from 1 July 2017 onward.

# Chapter 3: Summary

The estimates presented here indicate that the proposed screening arrangements are likely to increase the operating costs of screening at Rockhampton, Wagga Wagga and Geraldton by between 13% and 40%, due to an increase in maintenance costs and staffing requirements.

The proposed changes to the aircraft size screening threshold and airport annual passenger threshold will require a few airports to conduct screening for the first time. Whyalla Airport is the only case study airport where this applies, and the case study estimates presented here describe the significant additional ongoing operating costs for these airports to provide security screening services. This can be expected to result in considerable additional pass-on costs from the airport to airline clients. How this pass-on may ultimately impact ticket prices is a business decision for the airlines in consultation with the respective airport.

The addition of an annual airport passenger threshold will remove the requirement for some lower passenger volume airports to conduct screening, including Kingscote and Longreach. The removal of mandatory screening gives these airports greater flexibility in business planning, including the option to remove security screening costs passed-on to airlines entirely and, potentially, for airlines to deliver ticket price savings to passengers. However, these airports may still choose to implement security arrangements beyond the regulatory requirement.

These case studies illustrate that the cost of operating passenger and baggage screening at regional airports varies considerably depending on passenger volumes and flight schedules. The cost of personnel to conduct screening tends to be the largest contributor to screening costs and is closely linked to departure schedules. Flights scheduled evenly across a day require screening to be operated for a longer period, leading to a corresponding increase in expenditure on screening staffing costs.

Airports with higher passenger volumes have greater flexibility in accommodating security screening costs. The amount of screening equipment at regional airports tends to be similar as the low passenger volumes mean equipment is operated below the capacity of a single screening unit. When comparing airports like Wagga Wagga and Whyalla, the equipment costs are similar but the much smaller passenger base at Whyalla results in a significantly higher screening cost per passenger. Some stakeholders raised concerns that the funding available for security equipment upgrades under the Regional Airport Security Screening Fund would not be sufficient at all airports.

As the Productivity Commission notes in its report on the Economic Regulation of Airports, many regional airports do not have sufficient demand to cover the costs of running the airport, which means the efficient charge for aeronautical services is more than passengers are prepared to pay.[22] Airports and councils in this situation may not pass on the full cost of providing airport services, including passenger screening, to airlines and passengers. In two of the case study airports, Geraldton and Kingscote, a proportion of these costs have not been recovered through screening charges.

Airlines have raised concerns that additional costs associated with security screening may reduce the financial viability of regional routes, potentially leading to airlines reducing the frequency of flights or exiting routes.

The case study estimates provide an indication of the financial impact of screening changes, but any change to airfares, service frequency or routes will be dependent on business decisions made by councils, airports and airlines.

Chapter 3 of the report on the operation, regulation and funding of air route service delivery to rural, regional and remote communities examines the social and economic importance of regional aviation services, including the effects of high airfares.[2]

# Reference List


[1] House of Representatives Standing Committee on Infrastructure, Transport and Cities, 2016, *Harnessing Value, Delivering Infrastructure: Inquiry into the role of transport connectivity on stimulating development and economic activity*

[2] Senate Standing Committee on Rural and Regional Affairs and Transport, 2019, *Operation, regulation and funding of air route service delivery to rural, regional and remote communities*

[3] Australian Government, 2019, *Australian Government response to the Rural and Regional Affairs and Transport References Committee report: Operation, regulation and funding of air route service delivery to rural, regional and remote communities*

[4] Australian Bureau of Statistics, 2018, *Regional Statistics by LGA Annual 2011 to 2018, Rockhampton R 36370,* cat. no. 1379.0.55.001

[5] Rockhampton Regional Council, 2018, *Annual Report 2017/18*

[6] Australian Trade and Investment Commission, 2019, *Local Government Area Profiles 2018, Rockhampton (R), Queensland*

[7] Bureau of Infrastructure, Transport and Regional Economics, 2019, *Airport Traffic Data 1985 to 2018*

[8] Australian Bureau of Statistics, 2018, *Regional Statistics by LGA Annual 2011 to 2018, Wagga Wagga C 17750,* cat. no. 1379.0.55.001

[9] City of Wagga Wagga, 2018, *Annual Report 2017/2018*

[10] Australian Trade and Investment Commission, 2019, *Local Government Area Profiles 2018, Wagga Wagga (C), New South Wales*

[11] Australian Bureau of Statistics, 2018, *Regional Statistics by LGA Annual 2011 to 2018, Greater Geraldton C 53800,* cat. no. 1379.0.55.001

[12] City of Greater Geraldton, 2018, *Annual Report 2017-2018*

[13] Australian Trade and Investment Commission, 2019, *Local Government Area Profiles 2018, Greater Geraldton (C), Western Australia*

[14] Australian Bureau of Statistics, 2018, *Regional Statistics by LGA Annual 2011 to 2018, Whyalla C 48540,* cat. no. 1379.0.55.001

[15] Whyalla City Council, 2018, *Annual Report 2017/2018*

[16] Australian Trade and Investment Commission, 2019, *Local Government Area Profiles 2018, Whyalla (C), South Australia*

[17] Australian Bureau of Statistics, 2018, *Regional Statistics by LGA Annual 2011 to 2018, Kangaroo Island DC 42750,* cat. no. 1379.0.55.001

[18] Kangaroo Island Council, 2018, *Annual Report 2017-18*

[19] Australian Trade and Investment Commission, 2019, *Local Government Area Profiles 2018, Kangaroo Island (DC), South Australia*

[20] Australian Bureau of Statistics, 2018, *Regional Statistics by LGA Annual 2011 to 2018, Longreach R 34710,* cat. no. 1379.0.55.001

[21] Australian Trade and Investment Commission, 2019, *Local Government Area Profiles 2018, Longreach (R), Queensland*

[22] Productivity Commission, 2019, *Economic Regulation of Airports (2019)*

# Attachment A: Aircraft types servicing case study airports

## Saab 340


**Maximum take-off weight** 13,155 kg
**Seats** 34
**Cruise speed** 505 km/h
**Range** 1,732 km
**Servicing:** Kingscote, Longreach, Wagga Wagga, Whyalla

## Dash 8 300

Source: Qantas

**Maximum take-off weight** 19,505 kg
**Seats** 50
**Cruise speed** 505 km/h
**Range** 1,520 km
**Servicing:** Kingscote, Wagga Wagga, Whyalla

## Dash 8 400

Source: Qantas

**Maximum take-off weight** 28,998 kg
**Seats** 74
**Cruise speed** 667 km/h
**Range** 1,668 km
**Servicing:** Longreach, Rockhampton, Wagga Wagga

## Fokker 100

Source: Bidgee

**Maximum take-off weight** 45,810 kg
**Seats** 100
**Cruise speed** 845 km/h
**Range** 3,170 km
**Servicing:** Geraldton, Rockhampton

## Boeing 737-800

Source: Virgin Australia

**Maximum take-off weight** 78,240 kg
**Seats** 176
**Cruise speed** 834 km/h
**Range** 5,449 km
**Servicing:** Rockhampton