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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE

THURSDAY, 7 MAY 2020

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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE

Thursday, 7 May 2020

Members in attendance: Senators Antic, McDonald, Patrick, Rennick, Rice, Sheldon, Sterle.

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Evidence was taken via teleconference—

Committee met at 13:44

CHAIR (Senator McDonald): I declare open this public hearing of the Senate Rural and Regional Affairs and Transport Legislation Committee. The committee is examining the Aviation Transport Security Amendment (Security Controlled Airports) Regulations 2019. This hearing is being held via videoconference and teleconference, with witnesses and committee members appearing online and some witnesses appearing in person. This is a public hearing, which can be viewed via the Parliament House website, and a *Hansard* transcript of the proceedings is being made.

Before the committee starts taking evidence, I remind all witnesses that in giving evidence they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee.

The committee prefers all evidence to be given in public but, under the Senate's resolutions, witnesses have the right to request to be heard in private session. It is important that witnesses give the committee notice if they intend to ask to give evidence in camera. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken. The committee will determine whether it will insist on an answer, having regard to the ground that is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, also be made at any other time.

On behalf of the committee, I would like to thank all those who are giving evidence to the committee today. I now welcome, via videoconference, representatives from Whyalla City Council. I invite you to make a brief opening statement before the committee asks questions.

Mayor McLaughlin: Thank you. I will give some background information. Whyalla is a city that has lived through a number of recessions over the last 10 years. Prior to COVID it had an unemployment rate of 10.1 per cent and a youth unemployment rate of 32 per cent. It has significantly more people with low income compared to the state of South Australia, and a greater proportion of the population do receive income support. They have no internet at home, no motor vehicles and a very low completion rate of year 12. Over the last 10 years, there has been a 21 per cent decrease in median house sale prices and we have experienced negative population growth. There has been reluctance from banks to lend money.

Whyalla is a small regional community that barely meets passenger-number and airline-seat criteria that trigger the need for screening. Whyalla does support security measures, but the airport itself is running at a loss. The introduction of screening doubles the operational cost of our airport. A \$6 million capital outlay is required to modify the existing airport just to fit in the screening equipment.

We currently have two airlines servicing Whyalla, which triggers different security screening requirements. One airline must screen and the other is not required to screen. This introduces complexity and risk, which may see one or both airlines no longer continue to fly to Whyalla. It may even lead to a situation where screening equipment is installed but then no longer required. Qantas have stopped flying to Whyalla on other occasions. An increase in cost due to security screening may see them reconsider their future in Whyalla, especially if they are the only airline paying for security screening. Rex Airlines does not qualify for screening and is against paying any screening costs. Losing just one airline negatively impacts Whyalla's ability to recover from this most recent economic situation.

Whyalla does support screening but is unable to meet the financial burden. Two airlines are required for Whyalla to service the public and also corporate travellers. The majority of corporate travellers work for GFG, the Gupta Family Group, and GFG are committed to a \$700 million redevelopment of our steelworks. This is important investment and a necessity to rejuvenate Whyalla and the state and national economies. GFG have to date spent \$50 million ensuring capacity to meet current steel demand of 1.1 million tonnes, and over \$700 million is projected to be spent, taking steel production to 10 million tonnes, producing high-grade iron ore and developing a multi-use port, and also establishing one gigawatt of renewable energy and ensuring that the community of Whyalla has a safe future.

Thank you. I'll just ask our acting CEO to say a couple of things.

Mr Clark: Thank you. I will just relay an example of Whyalla barely qualifying for screening. Qantas has 50-seater flights that come into Whyalla, but they often have fewer than 40 passengers. There was a random week

from September last year where 16 out of 44 flights had fewer than 40 passengers on board. Indeed, during the current situation, we have Qantas flying into Whyalla a 50-seater plane that is carrying a single passenger. So that's a reflection of where we are today.

CHAIR: Thank you very much for that. I'll go first to Senator Patrick for questions.

Senator PATRICK: Thank you, Chair. Could you give me an indication of how much time I have.

CHAIR: We only plan to have another 10 minutes, so can we try and keep it to five minutes and, if nobody else has questions after Senator Antic, I'll come back to you.

Senator PATRICK: Okay, thank you. Thank you very much for appearing. I'm just wondering: can you give some rough order of magnitude of the operating income and operating expenses of the airport and, therefore, what the typical loss is for the council?

Mr Clark: Yes. Over the last five or six years, our operating income has been \$900,000. Just looking at our operating expenditure for the just-completed financial year of 2019, expenditure is \$1.1 million or \$1.2 million, which has given us operating results over the last five or six years of a loss of around \$180,000 each year.

Senator PATRICK: That's made up by residents through rates, is it?

Mr Clark: Correct. It's our ratepayer base that is subsidising that loss at the moment.

Senator PATRICK: Have you been provided with a copy of the passenger security screening enhancement case studies?

Mr Clark: Yes.

Senator PATRICK: In there, they have a case study for Whyalla that shows that the ticket price will go up by about \$52 per passenger per flight. I think they use 35 per cent. Do you see any problems with the numbers that have been presented to the committee?

Mr Clark: No, we don't see any problems with the numbers. They are consistent with what we've seen in the past.

Senator PATRICK: How much consultation have you had in respect of this decision to apply this security in terms of understanding the effect that this would have on pricing and, indeed, on the city?

Mr Clark: In terms of discussions with Rex Airlines, they fall below the threshold, so they are reluctant to pay the increase to cover the cost of the screening. For Qantas, the decision there is a difficult one for council, because we need to either put the total cost onto Qantas, which would make them a significantly more expensive airline to fly with, or end up trying to share the cost between the two airlines. Depending on which way we go, it's council's view at the moment that potentially we could lose one of the airlines and perhaps even both.

Senator PATRICK: That would have a significant effect on the city, no doubt.

Mayor McLaughlin: Yes, it would.

Senator PATRICK: Sorry. As my first question—I was going to ask you this question about the airlines anyway—I meant to ask you about consultation from either Home Affairs or the department of transport. Have they engaged you over a long period and sought your views about this security measure?

Mr Clark: Yes.

Senator PATRICK: What was the nature of that consultation?

Mr Clark: We have had meetings in Canberra, as well as email contact. There have been a number of emails, and there have also been a number of meetings that council has attended in Canberra.

Senator PATRICK: So the bottom line for you, Mayor McLaughlin, is that you think this will have an effect on the city. How would you describe that? Clearly, you're potentially going to lose an airline flying to Whyalla—maybe two.

Mayor McLaughlin: The importance of us having different carriers and, obviously, competition in flights to our city is critical. It's critical for many different reasons—firstly, in regard to medical support and also for our corporate market, especially with GFG—they have a lot of use of the airlines for their workers et cetera—and also for government services. Obviously, being four hours drive from Adelaide makes use of flights critical for business in our city to get up and down in a day. So, if we don't have the opportunity to have two competing airlines flying regularly to our city, it will have a huge detrimental effect on our economy and how we function as a city within the state and also nationally.

Senator PATRICK: I note that over the last couple of weeks—it's in the public domain—Rex have engaged in discussions with the councils in relation to ongoing agreements, security charges, landing costs and so forth. I presume security charges were mentioned in those discussions.

Mr Clark: The discussions with Rex were more about the landing tax and council looking to provide relief there for the next six months during COVID. We didn't engage in conversations about additional costs for security, but those are discussions that had been happening prior to COVID, and Rex had indicated that, because their planes don't qualify for the security screening, they would not look to pay for security.

Senator PATRICK: But that produces a practical problem. Having been to Whyalla Airport several times, I know you have a terminal that doesn't really permit having a screened and an unscreened area.

Mayor McLaughlin: That's correct. Our current airport does not have the capacity to actually have space for screening equipment. We would have to increase our footprint just to have the capability to house the screening equipment. Even at that point, we would not be able to separately screen Qantas while not screening Rex and have the airport functioning. We'd actually have to build another separate building to house one of the airlines because the airport's just not capable with the current size that it is.

Senator PATRICK: Has the government offered to pay any capital costs or contribute towards the capital costs that would be required to upgrade your airport?

Mr Clark: Yes, we have had an offer of \$1 million to go towards the upgrade of the capital of the airport.

Senator PATRICK: Is that enough?

Mayor McLaughlin: No, it's not enough.

Senator PATRICK: What's the order of magnitude of the upgrade cost?

Mayor McLaughlin: We're looking at about \$5.6 million.

Senator PATRICK: So you're going to cover about \$4 million from the ratepayers, in addition to operating costs.

Mayor McLaughlin: That's correct.

Mr Clark: Yes. Just to clarify, it is \$5.6 million to upgrade the building to be able to hold the security equipment, and then there's another \$1 million to purchase the security equipment, which is also capital.

Senator PATRICK: Then I think you say your operating cost is something like \$900,000. The report that's been produced in relation to Whyalla suggests that, in effect, this doubles your operating cost. In fact, they're suggesting that the total cost would be something of the order of \$900,000, so they're going to double the operating cost of the airport.

Mayor McLaughlin: Yes, that's correct. As the CEO said, we're currently working at a loss, so we feel that it is absolutely unacceptable for us to have to have this burden on our community year after year. We expect this cost to be covered by the federal government, because security is a federal government requirement.

Senator PATRICK: Okay.

Senator ANTIC: Thank you for that. I just have a couple of questions. Just to be clear, who owns Whyalla Airport?

Mr Clark: The Whyalla council owns the airport.

Senator ANTIC: I read an article in the *Whyalla News* back in August of last year as to the plans to build a new terminal at the airport. It was talking about that issue. I've just brought it up here. It quotes council CEO Chris Cowley:

Council CEO Chris Cowley said the mandatory security upgrade from the federal government was an ideal opportunity to expand the airport even further ...

.....

This modelling on the proposed upgrade is expected to have a positive net impact on Council's financial performance with key financial targets that will deliver a return to ratepayers ...

I'm just interested in that. Why would the passenger screening enhancements be referred to as 'an ideal opportunity to expand the airport'? Isn't the new terminal beyond the scope of passenger screening? Have I interpreted that correctly?

Mr Clark: I think the thinking at that time was that an opportunity to expand the size of the airport, to potentially have more people flying into Whyalla, was perhaps the vision. But at this stage, given the size of the airport, the upgrade is not making the footprint of the airport larger; it is simply moving interior walls around

inside the airport to fit in the security equipment that's required. It's probably not an upgrade; it's simply making the airport suitable to fit the equipment in.

Senator ANTIC: You say the airport has commenced the fit-out of the existing terminal already—is that right, or haven't you done that yet?

Mr Clark: No. Work has not begun.

Senator ANTIC: I'm interested then in the net impact of the Whyalla airport on the council's financial performance. Is it run on a for-profit basis perhaps?

Mr Clark: It's not run on a for-profit basis. Last financial year, it was a \$187,000 loss. In the 2017-18 year, it was a \$196,000 loss. Even going back to 2013-14, it was negative \$200,000. So it's in the order of a \$150,000 to \$200,000 negative for the council.

Senator ANTIC: Are you familiar with Senator Patrick's disallowance motion on the regulation? I'm just interested in that, because my understanding is that if the regulation introducing the new security arrangements is disallowed then, I presume, Whyalla would no longer be eligible for its grant—the one you've already spoken of—under the fund. Is that a concern, from the council's and the airport's point of view?

Mr Clark: No. My understanding is that if the disallowance goes through then the security screening isn't required. And at this stage Whyalla council has not received any money for the upgrade, so it would not have an impact on us from that point of view.

Senator ANTIC: Just broadly, in terms of the issue of passenger screening at Whyalla airport, as recommended, do you agree that the introduction of passenger screening measures at the airport is a prudent thing to do?

Mr Clark: In principle, we do agree with the screening of passengers. But when we look at what triggers screening to occur at our airport, back in September we had 44 flights leave Whyalla, of which only 16 would have qualified. But, given the size of our airport and how it would be structured, we would be screening all the time, all day. We couldn't just screen some flights and not others. So we would be screening on a full-time basis just to collect those 16 flights that would occur in a week. As to the cost that we would then be incurring on a full-time basis just to collect those 16 flights that qualify, it really does feel like it's only every now and then that we are reaching the triggers as currently constituted under the screening.

Senator RENNICK: Hi, guys. My sources tell me you're getting a \$1.85 million grant. Is that correct?

Mr Clark: Yes. I believe that there is a grant. The one that I'm familiar with is a million dollars. But, yes, that does sound correct.

Senator RENNICK: Will that cover the cost of the upgrade to the screening equipment or not?

Mr Clark: Yes: \$850,000. Yes.

Senator RENNICK: So the cost of the screening equipment is \$850,000, and you're getting \$1.85 million—is that correct or not, sorry?

Mr Clark: Yes.

Senator RENNICK: So mightn't the remaining \$1 million go a long way to paying wages, along with the decreased insurance costs, so that you can try and argue with Qantas to push down airfare prices?

Mr Clark: The additional million dollars is only to cover capital, and the capital upgrade is \$5.6 million. So that million isn't available for operating costs.

Senator RENNICK: Okay. But, as to the upgrade, are you upgrading purely because of the screening, or are you upgrading because you're growing the airport?

Mr Clark: Purely because of the screening, and the minimum cost that we can get away with is the \$5.6 million. That's the cheapest way for us to do it.

Senator RENNICK: I thought you were also growing the airport because industrial activity was coming back out there.

Mayor McLaughlin: That's a vision that we have, based on the economic growth within the city, but we feel that this is a separate issue. This is what we're being commanded to have in place by a set date.

Senator RENNICK: Would you be able to bargain with Qantas to get lower airfares, given that you should have lower insurance costs because of the screening?

Mr Clark: Sorry, you were breaking up during that question. I missed it. Could you repeat it.

Senator RENNICK: My understanding of it is that, because it's now a screened airport, insurance costs will be lower. Those are obviously incurred by the airline, but then, when you organise your ticket pricing with Qantas or Rex or whoever—though I realise Rex is not included in this—you will be able to get cheaper airfares. Is that true?

Mr Clark: Not to my knowledge. There are the increased operating costs because of the security screening, and also council would need to recover the capital cost as well. So I don't know that any savings would make up any of those additional costs.

Senator RENNICK: That's all from me. Thank you.

CHAIR: Senator Sterle.

Senator PATRICK: You might have to take yourself off mute, Glenn. We can't hear you, mate.

CHAIR: We'll just give Senator Sterle a moment. Senator Patrick, do you want to ask your supplementary question while Senator Sterle comes off mute?

Senator PATRICK: Yes. In relation to the question about insurance and so forth, in some respects that doesn't affect you. You have an absolute cost in meeting the security requirements, don't you.

Mr Clark: Yes.

Mayor McLaughlin: Yes.

Senator PATRICK: And we note, from the inquiry that this committee did in the last parliament, that there has always been a lot of tension between airlines and airports in relation to these landing costs and security prices, hasn't there.

Mr Clark: Yes.

Senator PATRICK: So there's no wiggle room at all really, is there, for you guys. You are simply going to have to pass that cost on to the airline or to the ratepayers directly.

Mr Clark: Yes, that is correct. In terms of trying to put a value on that, it would be an increase in our rates of six per cent each year to cover the projected loss if council itself had to pay for all of these costs.

Senator PATRICK: And that's off the backdrop of the economic description that the mayor gave at the start.

Mayor McLaughlin: Yes.

Mr Clark: Correct, and the six per cent is merely to cover the costs of the security screening.

Senator PATRICK: Do you have a view on an alternative model, if security screening were to be introduced?

Mayor McLaughlin: Yes. The infrastructure requirements and the yearly operating costs would be covered by the federal government.

CHAIR: Thanks, Senator Patrick. Senator Sterle?

Senator STERLE: Thanks, Chair. Mayor McLaughlin, I might be missing something here. We understand the extra cost per ticket is around \$63 to \$69—something like that. How many passengers pass through Whyalla Airport every year?

Mayor McLaughlin: About 73,000.

Senator STERLE: If we insist and we go down this path and you have to have this security—and Qantas and Rex are all in the same boat; don't worry about that. None of them are doing it because they love regional and rural Australia. They're doing it because of the profits that they can make. We saw what happened when Ansett collapsed. Whether it's Qantas, Rex, Virgin, Ansett or whatever, do we seriously believe that, by putting Whyalla in a position where there is only one airline, Rex—and it's going to be Rex, and I'll say it's Rex because it is—is, in the best interests of the people of Whyalla, going to reduce the cost of flying in and out sans security? Do we really believe that it is healthy for Whyalla and the people in your region to not have some form of competition? This is coming from a Labor senator. It's not coming from the let-the-market-rip, conservative side of the make-up here. Am I missing something?

Mr Clark: No. It's a fair point.

Senator STERLE: Have you had the conversation with the government to say, 'Do you really understand what you're going to force upon us if we do not have a competitive airline market in and out of Whyalla?'

Mr Clark: Yes. We have had conversations with the government to say that we do support two airlines coming to Whyalla.

Senator STERLE: At least.

Mr Clark: Yes.

Senator STERLE: At least two airlines.

Mayor McLaughlin: Yes.

Senator STERLE: What was the response for the government? Was there, 'Oh, my goodness me! Yes, you're right'? I'll tell you what: I come from the mining state, and you're lucky you've got Mr Gupta and co.

Mr Clark: We haven't had that conversation.

Senator STERLE: This committee has gone down this path. Some of the senators—Senator Patrick and myself, in particular, and other senators, from prior to their becoming senators—are very well aware of what happens in regional Australia when the mining industry has the first grasp of the seats. Let's not fool ourselves: whatever seats may be left on those flights are not the cheap seats.

Mr Clark: No. You are correct. It is cheaper to fly from Adelaide to Bali than from Whyalla to Adelaide.

Senator STERLE: That's why you've got two airlines. That's why you've got two now. That's why you've got competition. Who knows when there's only one airline.

Mayor McLaughlin: That's correct. Even with two airlines, currently the cost for tickets could be more affordable. It's still quite expensive.

Senator STERLE: I know, Chair, that we've got to get through a lot. I would certainly like to progress this a little bit further. Mayor, if you've had that conversation with government, who did you talk to and what was their response? You don't have to give it to us now. It would be handy if you could. But if you can't give it to us now, take it on notice and come back to us.

Mayor McLaughlin: Yes, we'll take that on notice.

Senator STERLE: Thank you.

CHAIR: Thanks, Senator Sterle. Senator Sheldon, do you have a question?

Senator SHELDON: Just one question. With regard to the seats that are low-40 seats in the Rex operations, in comparison to Qantas, which is 50-seater, in your evidence you mentioned the potential for costs just being laid against the Qantas operation, which would make it more expensive. Following on from Senator Sterle's questions, that could lead to a situation where Rex airlines would be the only operator of a substantial nature operating out of Whyalla?

Ms Clark: Correct.

Mayor McLaughlin: Yes.

CHAIR: Thank you. If there are no more questions, thank you very much to everybody from Whyalla for providing evidence.

Mayor McLaughlin: Thank you.

DREW, Ms Stacey, Executive Policy Adviser, Armidale Regional Council

GLEESON-BARKER, Mr Billy, Acting Manager, Armidale Regional Airport, Armidale Regional Council

MacDONALD, Mr Scot, General Manager, Businesses, Armidale Regional Council

MURRAY, Mayor Simon, Mayor, Armidale Regional Council

Evidence was taken via teleconference—

[14:16]

CHAIR: Welcome. I invite you to make a brief opening statement before the committee asks questions. Do you wish to make an opening statement?

Mayor Murray: I do. Thank you very much for the opportunity to talk to you. We are in Armidale, which is in the Northern Tablelands of New South Wales, midway between Brisbane and Sydney. Armidale's strengths are in higher education and agricultural research, delivered by the University of New England. We also have a strong education sector, with four independent schools and the near-finished Armidale Secondary College, with close to 2,000 students. We also have a digital smart hub at TAFE.

Agriculture remains the bedrock of the region. We benefit from the value-add of having the headquarters of many breed societies, ABRI and the recently relocated APVMA. Health services, including aged care, are now an important economic driver for the region, supported by a medical school and upgraded rural referral hospital.

It is unfortunate that the committee is unable to fly into our city. You would have had an overview of the environmental attractions that underpin the vibrant tourist economy. We're a destination for lovers of the high country and national parks.

With respect to aviation, the Armidale Regional Airport has a diverse range of aviation industry not common to the majority of regional airports in New South Wales. Apart from regular public transport, RPTs, the balance of the industry based onsite is mainly general aviation. Some of the operations include the agricultural flying operations, both fixed-wing and rotor, and general aviation aerial work, such as surveying, powerline inspections, pipelines, national parks et cetera. We've got general aviation flight training in both fixed-wing and rotor. We have a general aviation charter operation which has rotor and corporate jets. We're part of a nationwide organ transfer. We have scenic flight operations. We have recreation aviation flight training. We have a Rural Fire Service air base here and we have fire-bombing contractors based here. Although not based in Armidale, the airport is used by several aeromedical retrieval services. The airport is not a controlled airspace, and therefore Armidale is a very common destination for advanced and basic IFR navigation flight training from multiple surrounding general aviation flight training organisations.

The New South Wales Rural Fire Service has established an airbase at the airport, providing water-bombing capabilities and training. This airbase provided aerial support for northern New South Wales during the recent section 44 wildfire emergency that ran from early September 2019 to January 2020. There were over 1,100 sorties by fixed-wing aircraft, and countless helicopter water-bombing flights filled up at Armidale airport and helped fight fires from the Queensland border to Kempsey. These aircraft helped save lives, property and wildlife across northern New South Wales.

For the RPTs, Armidale airport is a hub for an extensive catchment—from Tenterfield, near the Queensland border, and Inverell, to our west, down to Walcha, in our south-east. Three RPT carriers provide service to Armidale: Qantas and Rex fly to Sydney, and Fly Corporate provides service to Brisbane. We have seen a growth in both aircraft movements and passenger numbers per annum. The previous three financial years have had passenger numbers exceeding 130,000 in spite of challenging drought and bushfire conditions. With the recently completed \$10.5 million terminal expansion, the Armidale airport can now accommodate up to 200,000 passengers per annum and has the capacity to support 4,500 commercial passenger flights per annum.

Armidale Regional Council is undertaking the redevelopment of the Armidale airport. This positions the Armidale airport as the gateway to international value-added opportunities for the New England regional agricultural sector, specifically into Asia-Pacific markets. We want to take this region forward, providing opportunities for our wider community, and we'll be advocating to develop a second, longer runway, which will make our airport fit for the future for RPT, freight forwarding, general aviation and also RFS firefighting.

Senators, we thank you for your contribution to improving regional aviation and taking the time to listen to our concerns. We are sorry you aren't able to join us personally. We look forward to hosting you in the future. We're happy to take questions, but, before we do, I'd like to make a comment to say that some of the responses will be council responses or those that we've heard from operators at the airport. Thank you.

CHAIR: I understand that the council has circulated a document which the committee has not yet had a chance to look at. But I acknowledge that it has been received, and it is being circulated currently.

Mayor Murray: Yes, it has.

Senator ANTIC: I have a couple of quick questions. I asked this question of the previous speakers. Do you agree, in essence, that the introduction of passenger screening at the airport, as recommended by the security agencies, is a good and prudent?

Mr MacDonald: Definitely, from our perspective. We're what we would call a mid-range airport, at about 130,000 passengers a year. The dilemma that we're facing is that we foresee that, in the next number of years—we're not sure how soon, but the next two or three to five years—the smaller Qantas planes and the smaller Rex planes will probably go, and we'll be looking at the larger QF400s and possibly Virgin. That puts us in a position of needing security. Even in the period of COVID, when the federal government came out with the eight-week subsidy program, we had to get a waiver, an exemption, because we don't have screening. Of course, Home Affairs delivered on that pretty quickly. But we foresee a future where we won't have a choice.

Senator ANTIC: Back to the issue of the Regional Airport Security Screening Fund, obviously you have applied. How much did you apply for, and was it granted?

Mr MacDonald: Hopefully, that went around with the stuff we just circulated. We were successful in getting \$1.84 million. That came at Christmas time. It was welcome. We started, almost immediately, ordering. Close to half of that was the equipment, out of the United Kingdom, and that's been a bit of a process. It's finally in transit. And then we have various other expenses that I've put on that sheet there for you—things like backup of the generators, CCTV and all those sorts of things. We had most, if not all, of that underway when we got the postponement advice back on 4 February. So we're a little bit in no-man's-land at the moment. We'd hoped that the Senate debate was going to be on 5 May, and in the meantime we were just getting on with putting the infrastructure in.

Senator ANTIC: So you've received the funds?

Mr MacDonald: We received the funds, I think, about a week after we were told that we were successful.

Senator ANTIC: Again, I asked this question of the earlier speakers. Are you aware that, if the regulation were to be disallowed, the airport would no longer be eligible for the grant and the moneys paid to date would theoretically have to be returned? That would have an impact.

Mr MacDonald: There's no question about that. I got a phone call when I was driving home on about 4 February, from memory, from someone from Home Affairs. So that was a bolt out of the blue. And then an email followed about two working days later. Our council took the view that it was going to take some time to get this set up. We took the view that it was an investment that we would probably have to make. We are still anxious that we might have to refund that \$1.84 million, but we're in the capable hands of the Australian Senate. So we'll see how that goes.

Senator ANTIC: That's very true. I have one last question. Just to recap: you do agree that the proposal to introduce passenger screening at Armidale airport is a good thing?

Mr MacDonald: We could probably have got away without it for another few years. But let me tell you: it's mainly the QF200s and the QF300s that come into Armidale, plus the Rex Saabs. They were fine. They would have kept going. But as soon as COVID happened and Qantas froze its network, so to speak, the advice that we got from Qantas was that they had mothballed—their words, not ours—their fleet of smaller ones, being the 200s and 300s. That is a concern for us. In this short period of eight weeks, while the federal government program is subsidising, we're getting the 400s. So, as I say, we're coming to the view that the future is probably moving ahead quicker than what otherwise would have happened.

CHAIR: To follow on from that, that \$750-odd million aviation package provided you with operational costs and capital expenditure costs for the security system, and that will run up until 30 September. Is that correct?

Mr MacDonald: I think you're talking about two different schemes there. We had the security screening fund, which we got the \$1.84 million from. That was the capital. And, as I say, we've got those works in progress. That's everything from the equipment right up to the modifications to the building. The other program announced by the Deputy Prime Minister was an eight-week program. The funds went to the carriers—so Qantas, Rex and, in our case, Corporate Air. They nominated the services. We got two Qantas flights per week from Sydney, return. We got two from Corporate Air—I'm looking to our airport manager—from Brisbane, return. We do have a bit of a dilemma with Rex. They announced that they were coming to Armidale, but, three weeks into the eight weeks, we have not seen a Rex flight. That's of some concern to us. To answer your question, that goes to that eight-week

period. I think we're in week 3 of that now. As to what happens in five weeks time, again, we're in the hands of the government. We'll see what happens.

CHAIR: What is the value of that operational expense that's going to the airlines? Do you know what Armidale—

Mr MacDonald: We're not privy to that. We don't see what is paid to the airlines. The benefit to us is connectivity. We're 500 kilometres from Sydney and 400-odd from Brisbane, we're a major health district, we're a university town and all those other things the mayor talked about, so it was quite a shock to our system to lose a service that we took for granted. One of the big groups of users of our airline services was the medical specialists coming in and out to do their work. It's difficult to attract and keep specialists in a mid-sized town like Armidale. They tend to be fly-in fly-out, as do the locums. That was probably the biggest problem that we noticed straightaway. From memory, I think it took about a week or 10 days for the first Qantas flight to come back. It's a godsend, but, of course, we're worried about what happens in five weeks time.

Senator PATRICK: I have a couple of points. Senator Antic hasn't had the benefit of the previous parliament's committee. There are actually two instruments. One granted the funding, and that has passed through the parliament, and that's why you are getting the money. There's a second instrument that deals exclusively with whether or not the regulations come into force. I don't think you have to worry about the money; it has been properly appropriated. You say you're happy to have the security. I wonder whether that's on the basis of some security advice that you've received or simply that you accept that the government has said that security is required and therefore will go forth with it.

Mr MacDonald: The answer is probably somewhere in between those. We didn't get aviation security advice that we were a destination that had threats or anything like that. I guess our thinking is more industry sector driven, where we believe that we will see the loss of those smaller aircraft, the lighter aircraft, and then we will be stuck with, I think, 40 tonnes and 70 passengers—that sort of fleet of aircraft that Home Affairs requires to be security driven. I think most of us in Armidale thought that was probably three to five years away. We got a lot of conflicting advice on that from everybody: from the industry, airlines, government and industry organisations. We did think that probably in three-plus years we would see that fleet not available in any significant form. We thought we would be pushed up to the 40-tonners, the QF400s, and we would be in a position where we needed that security to get access to Armidale and Brisbane.

Senator PATRICK: But that's really just saying you want the security because the regulation requires you to have screening to have those aircraft. Port Lincoln has similar numbers to you. I think you said 160,000; I think they've got 170,000. They're of the view, in discussions I've had with them, that the additional cost will be somewhere between \$10 and \$20 per passenger. Have you calculated the per-passenger cost of operating—not the capital cost—on an annual basis? What will the per-ticket cost be for this equipment to be operated?

Mr MacDonald: It's a good point. We don't have experience in this department. We were grateful to get the capital, but the operating thing is a concern to us. Our airport manager here is saying we thought it was between \$15 and \$20. That would depend on volume. We couldn't be sure about the basic things like rosters and the manpower that we would need, even down to whether they would need car parks at the airport for staff. All those sorts of things were somewhat unknown to us. It was definitely a concern for us that we would underestimate or overestimate it. We would have preferred a little more guidance in that department. We got the capital; it was great that we got that. Our airport manager and team talk to people like the Tamworth crews, who do this thing regularly, and tried to get some feel for the costs we were up for. I think it's fair to say that every airport is different. Our costs are different to Wagga, different to Dubbo and different to Whyalla. We would probably appreciate a little bit more assistance, guidance and support about whether we're up for \$12 or \$22. We were sort of striking a figure midway in—

Senator PATRICK: Let's say it's \$10 or \$15. Let's put it in the middle. You're going to pass that on to the airlines, I presume. The council's not going to bear that by way of rates?

Mr MacDonald: Again, it's a good question. We had a good understanding and working relationship with Qantas to make that happen. Rex—and I think I heard your previous witnesses talk about their challenges—would not come to the party on contributing to airport screening. Essentially, what they were going to do was piggyback on Qantas because their flights left within 10 to 15 minutes of each other. In a practical sense it could work, but we definitely had one player carrying a bigger burden than the other player.

Senator PATRICK: Evidence provided to this committee by Qantas hasn't specifically named Armidale, but certainly other destinations are saying that, if a charge of \$10 to \$15 were levied on the airline, it would have an effect on people's will to travel by air. That will reduce passenger loadings. That may reduce the number of flights

or even the viability of the route. Have you talked to Qantas and Rex about the effect that this would have, in respect of their services to your airline, if you were to increase each fare by \$15?

Mr MacDonald: We did. I guess we came to the point where we both thought we didn't have any choice. We both agreed to work on keeping those fares as cheap as possible. For background: we're not a cheap destination. I think I heard your previous witness talk about it being cheaper to fly to Bali from Whyalla. Typically, our airfares sit in the \$200 to \$300 range. A lot of our passengers, as I say, are at university, at the APVMA, in the health or education sector and so on. They're not as price sensitive. I wouldn't say for a second that your point is wrong. Any increase will affect somebody, but we didn't feel we were in a position to argue with the government. There was a process that we were told to follow. We followed it. That impost was to be put on the ticket price. We did have discussions with both Rex and Qantas about encouraging specials, if you like, or sub-\$200 airfares, and we agreed to do some joint marketing—not all that great, and it doesn't directly answer your question, and it wouldn't solve what you're—

Senator PATRICK: I'm mindful that other senators have questions. This is my final question and, in some sense, is a comment. You can't argue with the government. The Senate can disallow this instrument. If it disallowed this instrument, you would not have to bear the cost of \$15 nominally for each passenger. Surely that puts you in a better position for growing passenger numbers and making sure that you don't have to share some of these costs with, perhaps, GA customers, who are already doing it tough.

Mr MacDonald: It's a fair point. Even if you did it as a transition and there were no impost for two or three years or so and you brought it in, at the end of the day there will be costs, and they've got to be passed on sooner or later if the government imposes it. As I say, I'll leave it in the wise hands of the Senate and senators, but we will have to manage, whichever way it goes. I go back to my original point: we don't want to be anti security screening. We have had people say to us that they feel safer on secured aircraft; there's no question about that. But, certainly, we're not looking to have any more financial burden on our community than we need to, particularly post the bushfire, post the drought and, now, post COVID.

Senator PATRICK: Thank you, Chair.

CHAIR: Thank you very much. Senator Sheldon, do you want to have another crack at asking your question? Senator Sheldon, your connection seems to have become very slow. Does anybody else have a question just while we wait for Senator Sheldon? Yes, Senator Sterle, please go ahead.

Senator STERLE: Thanks, Chair. Mr MacDonald, you mentioned Fly Corporate, whom I've not met yet. Fly Corporate service Armidale as well—is that correct?

Mr MacDonald: Armidale-Brisbane.

Senator STERLE: Who else does Armidale-Brisbane?

Mr MacDonald: No-one. There have been periods at our airport when we have not had a Brisbane connection, so we're pretty grateful to have that service back. It's been back for about two years now, I think. They are one of the carriers that took up the federal subsidy to give us two flights a week.

Senator STERLE: That's great. Are their planes less than 40 passengers?

Mr MacDonald: Yes.

Senator STERLE: And are they even subject to security charges?

Mr Gleeson-Barker: Fly Corporate are operating Saabs and Metros, so they're falling under the 40 passengers and 20 tonnes, and that's for the Brisbane destination.

Senator STERLE: They're under it.

Mr Gleeson-Barker: Yes, they are.

Senator STERLE: Thank you. Senator Patrick asked about the added seat cost. That's what I was interested in. Mr MacDonald, one thing I will talk about and will pick up on is the fear, if the disallowance goes through, that you may have to pay back the \$1.8 million to the government. That would be a concern. We have information, which we'll test with the departments, that that's not the case, but we'll follow it up.

Mr MacDonald: If that's the case, I certainly know that our finance director will sleep more easily. It'd be good to get that—

Senator STERLE: Of course.

Senator PATRICK: I would make the comment that it would be pretty unreasonable for the federal government to take money from you when they put the funding in place before they sought permission from the parliament to put the security requirements in place. That'd be pretty unreasonable of the government.

Mr MacDonald: Senator Patrick, one of the things we found difficult—I think I've touched on it—was that we were given verbal advice to say that the disallowance was happening and then I had this discussion: 'Well, look, we've already ordered \$860,000 worth of equipment out of the UK. We've got a builder underway. We've got a new generator underway,' et cetera. There certainly were some grey areas. So, in the discussion that we had, I tried to land on: 'Well, look, we've already raised the purchase order. We've already paid for something. Do you think that will be okay?' And the reply was: 'Well, we think that'll be okay.' So I guess what I'm trying to say is that we've gone out on a bit of a limb.

Senator PATRICK: I don't think that funding is at risk. It would be unconscionable of the government to take it from you. I understand the position that you're in. You're committed financially to the security upgrade. Would it change your view if I were to say to you that that is not at risk, but you are going to bear the cost of operating the security screening equipment for the rest of the airport's life, and that is going to be a burden on you? To provide security screening at these airports, the sorts of numbers in the case studies are in the order of \$1 million a year. They go up, depending on the number of shifts required, but are of that order. What is your current expenditure per annum, in rough terms, to run the airport?

Mr MacDonald: I'll hand over to our airport manager in a second, but I can answer it in the following way. We pulled the tender for those screening services literally a day or two or three before we were about to put it out on TenderLink for local government, so we don't know the exact cost. We think we were going to land at about \$500,000 a year, but it really was that we were taking a leap into the dark, so to speak, and we didn't—

Senator PATRICK: Sure. What are your current operating costs?

Mr MacDonald: I'll hand over to—

Senator PATRICK: Just approximately.

Mr MacDonald: I think our costs, from memory, are about \$15 million a year. I'll check that, if you like. I'll take that on notice.

Senator PATRICK: Okay. Thank you.

CHAIR: Thank you. Senator Sheldon, I believe we have you online now.

Senator SHELDON: Thanks very much. I might have missed the last question that Senator Patrick asked about costs. But, given Senator Patrick's figure was between the high and the low of what you'd charge per passenger, if you were able to estimate by multiplying it by the number of passengers you have, would that add around \$23 million to the cost of passengers, tourism services or commercial operations, cumulatively, in Armidale?

Mr MacDonald: No, it wouldn't be that high a figure. I can check it. I get it as being about \$2.5 million, unless I've done my calculations wrong—it's 130,000 times \$20—

Senator SHELDON: Sorry, it's \$2.5 million. My apologies. So it would be an extra \$2.5 million to the tourism industry and commercial operations in Armidale. To go back to the airlines, you said that Rex do not intend to pay the figure. What are they basing that on?

Mr MacDonald: If you can find the answer to that, I would really appreciate it. We've had long and deep and meaningful discussions with Rex. They feel they shouldn't have to. Can I say it has put an impost on everybody from the taxpayer onwards. We've had to do apron works valued at about \$350,000 to do separation plus some other works inside the terminal. I cannot answer that. I'd love to answer it, but I can't.

Senator SHELDON: Are you aware that planes with fewer than 40 passengers are not required to screen?

Mr MacDonald: I'm not, but—

Mr Gleeson-Barker: Absolutely; yes, I am.

Senator SHELDON: You're aware that the planes that Rex operates are below 40?

Mr MacDonald: Yes.

Mr Gleeson-Barker: We understand the Saabs are under 40. Personally, I think that's the basis of why they're not going to pay the screening fee. It's simply due to the fact that they're operating aircraft under the 20-tonne and under the 40 pax.

Senator SHELDON: Would it be logical that that's the reason why they're saying that they wouldn't be prepared to pay an allowance, because they're not required to have people screened?

Mayor Murray: Absolutely, yes. That comes with the conflict of potentially having an airport that's screened. We're in a luckier situation where the design of our new terminal actually has segregated areas, so we can unlock Whyalla's issue, which we heard about earlier, where they couldn't create the segregation and needed the

additional funding to retrofit their terminal to run screened and non-screened. We have the flexibility here, luckily, that we can have delineation between a screened area and all the rest of it. As Scot just said, we've done an expansion of apron works as well, so segregation can happen on the apron itself in concert with the required security measures for that, so in fact we don't lose a lot of capability with screening. Moreover, from my point of view, I see that we get potentially more capability with screening because it can bring more competition to the area. If we were to imagine three weeks ago, when Virgin were still standing on their own two feet, at the moment, Virgin pretty much serviced all airports surrounding our area, because most of the airports surrounding our area are screened. If you look at Tamworth, Port Macquarie and Coffs Harbour, all those very common areas around the Armidale-New England area are security screened airports and are all being heavily serviced by Virgin. At the moment, we can't take Virgin, because they don't have any aircraft under that 20-tonne, 40-seater allowance. I think we're in a good place in that we were lucky enough to look forward when we did our terminal redevelopment that we could segregate and take on both screened and non-screened, and with that facet we can attract more competition to the area, which, as Senator Sterle said earlier, is a hugely important part of the industry.

Senator SHELDON: Rex competes with a number of operators, and potentially, as you mentioned, with Virgin in the future. It seems to me that, on the surface, a \$15 difference in ticket fee would give a commercial advantage to one operator in particular if it were paying \$15 less.

Mr MacDonald: One way of looking at it is that, let's say, one of the popular airfares is \$180 or \$190 each way. If you add \$15, \$16, \$17 or \$18 on that, you're adding 10 per cent. That would be a shock to the system, no doubt.

Senator SHELDON: So, as it stands at the moment, there's one operator that's agreeing to cover what the obligations are above 40 and there's one that says, 'I have less than 40, so I'm not paying,' so there's a \$15 difference in ticket price, which would give someone an operational advantage—a commercial advantage—over another operator.

Mr MacDonald: Definitely.

Senator SHELDON: In that case, just to clarify it, Rex doesn't have to pay the \$15 and Qantas is saying that it will pay because it's required to.

Mr MacDonald: I'm not sure if it's required, but they're a willing party to it. They didn't—

Senator SHELDON: I'll say it a slightly different way: they're required to have the aeroplanes screened, because they're over 40.

Mr MacDonald: Not the 200s or the 300s.

Mr Gleeson-Barker: No.

Mr MacDonald: The fleet that they were using before COVID would have sneaked under there. We're in no-man's-land a little bit at the moment. We don't know what Qantas is going to come back with—the smaller fleet or the larger fleet. If it comes back with the 400s then we would expect, hopefully, Home Affairs would give us a waiver for the bit longer it takes to set up the security screening.

Senator SHELDON: So, as it stands at the moment, the 400s would be a commercially different \$15 a ticket higher.

Mr MacDonald: We've been given a waiver, but we're in the hands of Home Affairs. We don't know whether that will be a short-term or medium-term thing. It won't be a long-term thing. The government has shown its flexibility to get us through this period, but how long that will go for we don't know.

Senator SHELDON: The QF400s are still being operated. The support that the government has put at this point is for a limited period. If that period were to run out then there would be a \$15 difference—Qantas would be paying \$15 for its 400s in comparison with Rex.

Mr MacDonald: Yes, I think that's a fair statement. The charge would start when we agree with Home Affairs that we've got a commencement date. The original commencement date was, I think, 1 September. We did have a little bit of flexibility around that. They were talking about giving extensions to 1 December. We would make an application to Home Affairs on exactly when that commencement date would be.

Senator SHELDON: Thanks for your answer.

CHAIR: Thank you very much, everybody. We're short of time, so I will thank Armidale council and airport very much for your evidence this afternoon.

Mr MacDonald: Can I say something? We're from New South Wales, and I think that's the first time I've heard Tony Sheldon being silenced! Sorry! Thank you.

BROOKSBY, Mr David, National Airports Manager, Regional Express

LODGE, Mr Warwick, General Manager, Network Strategy & Sales, Regional Express

SHARP, the Hon. John, Deputy Chairman, Regional Express

Evidence was taken via teleconference—

[15:01]

CHAIR: I welcome representatives from Regional Express. I invite you to make a brief opening statement before the committee asks questions. Do you wish to make an opening statement, Mr Sharp?

Mr Sharp: Yes, thank you. The last time we were before this committee wasn't that long ago. Sadly, Chair, you weren't a member of it at the time, but some of the people I've been listening to in the last few minutes were. On that occasion, the committee was holding an inquiry on the alleged high prices of regional air services and how they were disadvantaging people who lived in regional Australia. So it's an interesting comparison that the last time we talked to this committee it was about the high prices of regional airline tickets, but today we're now talking about new charges that are to be imposed on regional airlines that would cause ticket prices to go up—as a consequence of those increased charges.

As a company we have managed for a long time now to operate safely, without security incidents, a system where, in the majority of cases, Regional Express aircrafts and the passengers on them do not undergo security screening, and therefore we have avoided the cost of security screening. The proposal that the government has put in its new regulations would inevitably lead to more of our passengers being screened for security; therefore, to increased costs for the airline; and, ultimately, to those costs flowing through to the consumers—the passengers. It's an interesting point that Rex, in its last half-year, made a profit of about \$10 per passenger, but the increased costs caused by these new security arrangements would absorb not only all that \$10 but also, potentially, considerably more. Of course, the cost will vary from destination to destination, dependent upon the number of passengers. But we note in the department's study that was produced recently, which was provided to us late last night, that in some airports the cost of a ticket will go up by about 35 per cent as a consequence of the imposition of security screening of our passengers and our aircraft.

We come to this hearing to say to you that we are very concerned that this new security arrangement by the government may impact very negatively on the cost of aviation. It will increase the cost, which will ultimately have to be passed onto consumers. When you pass that on, the cost of tickets goes up; when you put up the price of things, demand is reduced; and, when demand is reduced, it threatens the viability of the services to the point where many of those services may not be able to continue.

So we come to this hearing very concerned. We thank the committee for looking into the impacts of the government's proposed regulations and we hope that the committee will be able to shine a light on the negative impact this potentially has on regional air services and the many, many millions of people in regional Australia who rely upon them.

CHAIR: Thank you very much for that, Mr Sharp. I'll go to Senator Antic.

Senator ANTIC: I'm interested in whether or not Rex supports the amended passenger screening arrangements and requirements that are being advanced by the government.

Mr Sharp: We are certainly concerned about them because they present the opportunity for substantial increases in the cost of the provision of our services. One of the things that also concern us is that, in many ways, it will be left in the hands of the individual councils who own the airports to determine how those arrangements will be implemented. For example, some councils act in what we would say is a responsible manner, and do their best to reduce costs for regional airlines; other councils act in an irresponsible manner and do their best to try and increase the revenue and the profits that they obtain through their airport. So there could be a wide variety of reactions from councils in the way they operate their airports.

Some councils see their airport as an essential service and therefore they try to keep the costs as low as possible. Other councils see it as a profit centre and try to generate more profit. The way we understand it is that the government doesn't want to get involved in negotiations between airlines and airports, and it wants to leave that to the airports and the airlines to resolve. But airports are monopolies. If we're flying to Dubbo, we can't land in Orange. We can land only in Dubbo, and the council in Dubbo owns the airport, so we are obliged to comply with whatever Dubbo council imposes on us. So they have a monopoly, and some will abuse that monopoly. In some cases, despite the fact that our aircraft aren't of a size that requires security screening, they will actually impose it on us and we will have no choice. And the charge that some of those councils impose won't be just to

cover the cost of that screening. The charge will present that council with the opportunity to make a profit to line their pockets elsewhere.

Senator ANTIC: So is Rex impacted by the regulation change, then?

Mr Sharp: Theoretically, we shouldn't be, because our aircraft have under 40 seats. Therefore, you would assume, given the size of the aircraft in our fleet, we wouldn't have security screening imposed on us. But we already do have it imposed in some areas; I mentioned Dubbo. Despite the fact we're currently not required to have security screening, Dubbo council imposed security screening on us. They charge between \$10 and \$12 per passenger for security screening, and that has to be passed on to the passengers in the form of increased ticket prices. Despite the fact that the government didn't intend us to be caught up with security screening and the costs of it, some council owned airports will impose it for reasons best known to them.

Senator ANTIC: I think you touched on this earlier: in relation to some of the regional councils, is it your experience that the councils run airports for the purpose of maximising their profits? Or do most of them run airports with a view to minimising the cost to the traveller?

Mr Sharp: There are a broad range of philosophies that councils use. I could use Parkes as an example. Parkes council owns the local airport. They have a philosophy of using the council airport as a way of promoting economic activity in their region. They keep their costs of access to the airport as low as possible in order to keep airline tickets as cheap as possible, so that more people will travel to Parkes and, as a consequence of more people visiting the place, add to the economy of Parkes. As a result Rex has a \$99 community fare available for people travelling to Parkes, because Parkes contributes to keeping costs as low as possible. On the other hand, you've got councils like Dubbo who use every opportunity they can find to increase costs so that they can produce more profits. We know that Dubbo airport generates considerably greater amounts of revenue than it spends; indeed, in its annual report it talks about the profits it makes.

So you get two different types of philosophies that apply, depending on the councils and the people in them. We think that the smart approach is to keep costs as low as possible to encourage as many people as possible to travel. That has a better economic outcome for a community than trying to drive profits through the airport.

Senator ANTIC: Thank you.

Senator PATRICK: I'd like to thank you for naming your airline as you have, Mr Sharp, because for a long time my daughters have thought I am wealthy enough to own an airline!

I'm not sure if you heard the evidence of Whyalla City Council. They basically stated—and I take it on face value—that they run their airport at a loss, something in the order of over \$100,000, which is borne by the people of Whyalla through council rates. The study that you referred to shows an increase in ticket price of \$52—or, as you said, 35 per cent—per passenger. I just want to play this through. Basically, Whyalla council said they hadn't really made a decision on whether they will impose that cost upon both airlines or just upon Qantas. If they impose that cost upon you, by the sounds of it, with a \$10 profit per seat, that makes the route unviable.

Mr Sharp: It certainly makes it unviable for us, because we don't make that extra 35 per cent of the ticket price—the \$52 per passenger—out of the service to Whyalla at the present time. That's a real problem for us, because if we can't operate profitably we obviously can't continue to provide a service. Rex will, in some instances, withdraw services as a result of these increases. The example you give is very worrying. Whilst the study only looked at a number of regional airports, I'm sure you could multiply the reaction of Whyalla council across the board to a number of other councils as well. It's also worth pointing out that, I daresay, Whyalla council lose more than \$100,000 a year on their swimming pool, their library and their public parks. They probably achieve no revenue from their road structure. It's quite feasible for a council to see an airport in a similar light to how they see any other piece of important community infrastructure. They see it as a service to the community rather than a profit-making opportunity.

Whyalla council is typical of some of those councils that take a philosophy that we disagree with. We understand that councils should at least try and cover their costs in maintaining their airports, but we don't think that airports should be seen as a profit-making incentive. In most cases they were gifted to local councils years ago under the Australian Airport Local Ownership Plan, back in the late eighties and nineties. They were gifted those airports and often a large sum of money to maintain them. So they don't really have a capital investment to get a return on, because the airports were gifted to them. Many councils will tell you that they lose money on their airports. But they lose money because they depreciate the asset by five or 10 per cent per annum, then add that depreciation cost to the cost of maintaining the airport and tell everybody that they are losing money. As you know, depreciation is not an actual expense; it's a virtual expense.

Senator PATRICK: Sure, but Whyalla council did make the point that, if they don't pass on the charge, it's a six per cent increase in rates. Ultimately, that's not good for a city that is struggling. Indeed, those people who pay those rates are your customers as well. There is no net gain anywhere, in my view.

Let's go back to Whyalla. If the cost is shared between Qantas and Rex, there is a chance that it will be unviable. I want to go to the other scenario: Rex is not charged and Qantas bears all of the cost. I would've thought that that would put Qantas out of the game in competing against you. Your ticket pricing, I presume, by way of competition, is relatively close to Qantas's.

Mr Sharp: Yes, it usually is close. It is usually a little bit under the cost of a Qantas equivalent service. Of course, it varies from place to place and time to time. I think it's worth noting that Qantas operates larger aircraft than Rex. Usually, these days, QantasLink operates the Dash 8-Q400, a 70-odd seat aircraft. We operate a 34-seat aircraft. By the very nature of operating a much larger aircraft, they have considerable economies of scale and advantage.

The other side of the coin is that Qantas also has considerable advantage for passengers who are travelling on from the flight they've just got off to another destination. Qantas usually disembarks its passengers into the secure part of the terminal and those passengers then transit, with their luggage being transferred to the flight they're transiting to. Those passengers transit inside the secure area—they don't have to depart it; they don't have to pick up their luggage. Rex passengers aren't often disembarked into the secure area; they are often bussed to a non-secure area where the baggage is unloaded, and they pick up their luggage, then check back in again and go through security into the secure part of the airport. So Qantas has considerable economies of scale and advantages that Rex doesn't have that overcome the increased costs it may incur as a result of security screening. In some ways we could both end up with an advantage; what that advantage turns out to be in dollars and cents is hard to tell. Qantas is not without an advantage that helps them overcome the cost of security screening.

Senator PATRICK: I just want to understand—you alluded to this, so I will come back round to it—the air route from Whyalla to Adelaide with an extra \$52 would, in essence, be unviable for Rex, noting it's at the more expensive end of the scale. Port Lincoln is somewhere between \$10 and \$20. Can you give us some indication—I'm sure you will have done some analysis—as to how many routes around Australia will be jeopardised if, indeed, this security requirement were to go ahead and these charges were passed on to Rex?

Mr Sharp: I might ask Warwick Lodge, our general manager for network strategy, to answer that question. He would be more qualified to do so.

Mr Lodge: The airports concerned are primarily the tier 2 airports under the proposed structure. That includes the likes of Whyalla and Port Lincoln, which are being added to that list for the first time because of QantasLink operating a 50-seater, which is above the security screening threshold. We've already got a number of airports that are tier 2 airports, such as Wagga Wagga, Albury and Mildura, where, under the current arrangements, we don't incur any screening, because they permit the segregation of unscreened and screened departures in parallel. We submitted a submission to an options paper that was released last year by the Department of Home Affairs, and we outlined concerns in regard to the current practices with screened and unscreened passengers operating in parallel—if that was not to continue. That would probably be the biggest trigger point for Rex in regard to the number of new airports where security screening would potentially be imposed.

Whyalla is a new airport that doesn't have security screening. In regard to Port Lincoln, we have previously seen QantasLink operate the Q400—the 74-seater. That occurred around 10 years ago for a period of time before they transitioned back to the 50-seat aircraft. Even then, when QantasLink were operating the 74-seater at Port Lincoln Airport, Rex operated the 34-seat Saab with no passenger screening. We haven't done the exercise in terms of the number of airports that would be impacted, essentially because we went through the process of providing a submission to the Department of Home Affairs in regard to screened and unscreened departures.

In February this year we had confirmation from the Department of Home Affairs that the existing practice of permitting screened and unscreened departures operating in parallel under an approved airport transport security program would continue. Our concern is that it is very hard to quantify the number of airports that would be impacted, because it's totally left the decision-making to the councils.

Senator PATRICK: One thing is for sure: there will be some air routes that will become unviable. You're not revealing what they are, but in essence it becomes a lottery for us senators and, indeed, for the public.

Mr Sharp: Yes, that's true. The cost of security screening at some airports will simply make the ticket price unviable for people. You've heard me say this before: we compete primarily against the motor car. If it becomes too expensive to go by plane, people will drive. That obviously impacts on the number of passengers, and a reduced number of passengers means either less frequency of service or no service whatsoever.

Senator PATRICK: That's not as safe for road users, is it? It actually adds a safety element.

Mr Sharp: That's right. It's statistically safer to fly than to drive. There are all sorts of other measures like carbon emissions and various other things that, you could argue, mean it's better for the community to have people flying than driving.

Mr Lodge: I think another answer to that question is: pre COVID-19 we had Rex operating five return flights each day between Whyalla and Adelaide with our 34-seater and QantasLink operating an AM return and a PM return with the 50-seater. If those additional costs were imposed on all airlines on the Whyalla to Adelaide route, you might see a situation where Rex is forced to reduce its frequency to a point where there might be a situation where you end up with Rex operating only one AM and one PM return service in parallel to Qantas. Fewer options for the customer, higher ticket prices and a big reduction in overall passengers, and all of that would have been triggered by security screening.

CHAIR: We might have to draw this session to a close. Thank you very much, Mr Sharp, Mr Lodge and Mr Brooksby, for your time and evidence this afternoon.

BOYD, Mr Jeff, Manager, Airline Network, Vee H Aviation Pty Ltd trading as Fly Corporate

MAJOR, Mr Andrew, Chief Executive Officer, Vee H Aviation Pty Ltd trading as Fly Corporate

[15:27]

CHAIR: Welcome. I invite you to make a brief opening statement before the committee asks questions.

Mr Major: I'll make a short statement; we were asked to keep it brief. Effectively, Fly Corporate operates regional airline services between nine regional airports and three capital cities. Those regional airports are in Queensland and New South Wales. We are headquartered in Canberra, but our main operating base is in Brisbane. I think, as far as I'm aware, that we are the third-largest operator of regional services out of Brisbane, after Qantas and Virgin.

We don't see our position here as to comment on how the decision to introduce these changes has come about. We understand that our presence here is to indicate the potential implications of the changes if they are to go through. As such, we hold ourselves available to answer any questions that senators may have.

CHAIR: Thank you very much. I think Senator Antic has indicated that he has a question.

Senator ANTIC: I asked this question of Rex, the previous witness group, as well. I'm interested in whether Corporate Air supports the amended passenger screening requirements as they're being advanced by the government.

Mr Major: As they're being advanced as far as funding is concerned, or just a general indication?

Senator ANTIC: Generally.

Mr Major: I guess security is a difficult thing. Where do you draw the line? Obviously it would be out of the question to question the implementation of security, but I think we're more concerned with how it's implemented and, more importantly, as I understand the current proposal, the implications it's likely to have on regional areas, certainly from our perspective of our ability to provide the services.

Senator ANTIC: You are obviously familiar with the regulation changes that are being proposed. I'm interested in how those proposed regulation changes would impact Corporate Air.

Mr Boyd: I was listening to Rex's comments before we came on, and basically we're in exactly the same position as Rex. We operate predominantly a 34-seat Saab, the same aircraft that Rex operates, which comes under the 40-seat requirement. We also, different to Rex, operate a fleet of 18-passenger aircraft to serve some of the smaller regional routes, which most definitely come in under that 40-passenger cap. Just highlighting what Rex was saying and agreeing, it is difficult to amortise those fees and charges. The smaller the aircraft gets, the more expensive per seat it is to operate. Obviously someone smarter than me worked out that 40 seats is the cut-off point for a reason.

Senator ANTIC: I'm interested in the concept of councils' involvement with airports and running them to maximise their profits. Is it your experience that most councils do seek to maximise their profits, or do most of them run them with a view to trying to minimise costs to the travelling public?

Mr Major: I don't think I've really looked at it in that sense. From listening to some of the previous comments, it would appear that, from the councils' point of view, they're not operating them at a profit. I think the fact that they're operating them and they're not operating at a profit would indicate that they probably see the airport and its ability to host flights as a community service and something that they should support. But I do understand that their margins, like our margins, are obviously very small. The implications are that the costs associated not necessarily with the provision of the new security measures but with the operation of them are costs that they're not, on the face of it, able to support. I imagine they would look to pass them through to us. We're in the same boat as them, so we'd look to pass them through to the passengers. From the passengers' point of view, there is obviously a finite level of ticket price that they can work with. From our perspective, the higher we price the tickets, the more people that won't be able to fly, because it's beyond their threshold, and the carriage is less and our costs go up on a per passenger basis. So it's a bit of a vicious circle.

Mr Boyd: If, say, there are us, Rex and Qantas servicing a port and Qantas is the only airline that is legally required to be screened, we will find that the councils charge everyone. I know Rex go to a port—one I can think of—where they don't get charged and Qantas do. But certainly for us, with the exception of one port—Coffs Harbour—where we're screened but not charged, everywhere else where there's screening for Qantas we have to bear a proportion of that screening charge. So I think there's probably a case the councils put forward to screen everyone to even out the cost for the airlines. In the same way as Rex, we see that as not fair.

Mr Major: I think they justify that on the basis that, effectively, they don't have the facilities within their terminals to keep the screened and unscreened passengers apart, which, on the face of it, could be a reasonable statement.

Senator ANTIC: In your view, is it commonplace for councils to try to make a profit from airports or is it unusual, or is it just a mixed bag?

Mr Boyd: I don't know if it's the intent of councils to make profit. We do see some councils that have fairly grand terminals et cetera, considering the services they get. As a small regional airline, we don't need a lot of the facilities that airports tend to grow. Our main aim is to provide a reasonably priced service to get as many people flying from regional Australia to the capital cities as possible. As to whether that's considered a profit zone for the councils, I won't make comment. In the case of what we're here for today—to discuss the upgrading of security and the potential increased costs of security—since security has been implemented post September 11, we've seen that it's an ever-increasing thing. Every day there's another increase in costs to an airline. Every day a large proportion of that seems to be an increase in costs of security. Again, I'm not saying we should or shouldn't have the security, but it just doesn't seem fair and equitable to us that a regional Australian will pay up to 15 to 20 times as much for their screening out of a regional port to go to a capital city as opposed to someone flying from one capital city to another. It's just not equitable.

Senator ANTIC: Thank you. That's all from me, Chair.

CHAIR: Are you aware of the passenger numbers and the aircraft weight that require screening in New Zealand? Are you aware of that comparison?

Mr Boyd: No, we're not. But, interestingly, in New Zealand, it doesn't matter what airport it is, it's all charged the same. They amortise the cost of screening across the whole country. It's run by the federal government. It's run by their Civil Aviation Authority and it's the same fee whether you're flying from a small airport or a large airport, which we think is a wonderful model.

Mr Major: Yes. We were actually going to suggest that it might be worth looking at that model because it might resolve a lot of these issues. It comes down to amortisation. Obviously it's very difficult to amortise the cost of screening when you've got a small user group, a small number of passengers, in the regional ports, which is generally the case. However, capital cities and major ports can obviously amortise their costs over a greater number of passengers. I think that's represented by the charges that we incur at the moment at the various ports—the relatively major capital ports versus the regional ports—for security screening. Indicative ideas are that, in Brisbane, a bit less than half our charges through the airport are for screening; in Tamworth it is about two-thirds; in Dubbo it is about half again; and in Sydney I'm not sure of the actual cost—

Mr Boyd: It is 87c a person. Our most expensive port is \$19.80 and our cheapest port is Sydney, at 87c a person.

Mr Major: Our thoughts are that, if you looked at this screening as a federally introduced procedure and treated it as such, as a nationwide type initiative, and looked at bulking the costs together for all the ports, amortising the costs over all the passengers travelling, you'd probably see the cost in the major capital cities go up by a dollar or \$2.

Mr Boyd: A small proportion.

Mr Major: But it would also bring the costs down in the regional areas by a similar amount.

Senator PATRICK: It's the model that's used in the US as well, isn't it?

Mr Major: It is, yes.

Mr Boyd: Absolutely.

CHAIR: Thank you. I appreciate that. Senator Sterle, do you have a question?

Senator STERLE: Thanks, Chair. Time's got away from us, and I'm struggling with this technology. I have a quick question, Mr Major. I'm really bitterly disappointed at Rex. Unfortunately, I didn't get to put it to them. Firstly, do you have any planes that cart more than 40 passengers?

Mr Major: No.

Mr Boyd: No, we don't.

Senator STERLE: Did you have any consultation or did anyone from your company have any consultation about the magical number of more than 40 passengers with either the government, the department, the Inspector of Transport Security or the minister, or any of the minister's staff?

Mr Major: Not to my knowledge.

Senator STERLE: Not to your knowledge. Please take it on notice and come back to us, in case someone else has, through your agency. Chair, I can't go any further because I'm mindful of the time.

CHAIR: I appreciate your brevity, Senator Sterle. Senator Patrick.

Senator PATRICK: I just want to ask a couple of other questions. I also proposed that, as a recommendation out of the last committee inquiry we had. I'm hoping that Senator McDonald's influence as a National within the coalition will manage to persuade government to rethink this. Just to understand: Rex indicated that their per-passenger profit is of the order of \$10. Are the numbers for you guys similar?

Mr Major: Ours wouldn't be any more than that, I would imagine.

Senator PATRICK: Can you just tell me how many Australians you carry every year across your flights?

Mr Boyd: About 130,000.

Senator PATRICK: As to some of the routes that you fly to, if these charges were passed on I presume the routes would become somewhat unviable?

Mr Boyd: Armidale is probably the prime example, potentially—currently, we're not screened at all—if there were screening costs put in there, let alone very high screening costs. Armidale's a very marginal port for us. We're the only service that operates to Brisbane from Armidale. Rex and Qantas both operate to Sydney. If the charge were too much, such that it made our service any more expensive than it is currently, I would think Armidale to Brisbane would be on the rocks.

Senator PATRICK: Have you communicated that to Armidale? They didn't seem to be concerned about that.

Mr Boyd: We've communicated with the previous airport manager. We haven't had much consultation with Armidale airport lately.

Mr Major: He's only just recently left that job.

Senator PATRICK: Fair enough. I think perhaps we'll make sure that, if they're not listening, they get a copy of the *Hansard* on that, because they were somewhat unaware of really what their costs will be, and you're saying that this is a critical issue for you?

Mr Boyd: It's tight. Anywhere we operate the 18-seaters, we operate them because it's a very low margin—a very slim route. We consider it's important. If we were to pull out of Armidale, Armidale airport would go back to being a one-destination airport. They'll halve their destinations by us pulling out.

Mr Major: To answer your question, it basically comes down to sustainability, and, with the marginal profit that's available, any charge—and even improvements or add-ons to the current security screening at current ports—will have an impact as well.

Mr Boyd: Particularly on the other side of the current situation with the pandemic, it's going to be a whole new world out there for us to be reviewing routes, looking at what works and what's not going to work, and what's going to take too long to grow back for us to be economically viable. So it's probably coming at a particularly bad time.

Senator PATRICK: That's interesting. You say that actually now is the worst time—

Mr Major: Absolutely.

Senator PATRICK: to do this?

Mr Major: Yes, I think so.

Senator PATRICK: I'd encourage Labor senators to, as I hope they will, support my disallowance—to factor that in. At best, we would perhaps want to shift this right by a couple of years, post COVID, and maybe revisit it—that's essentially what you're suggesting?

Mr Major: I think we're also saying that it's not necessarily a good idea at all.

Senator PATRICK: Sure.

Mr Major: Our problem is not so much the actual putting in place of the security screening; it's more a case of the sustainability of it and who is going to pay for it.

Senator PATRICK: In terms of the totality of the airline—and I probably should have asked this of Rex as well—sometimes you shut down a couple of routes and it actually brings into question the entire business model. Are you in that space if—

Mr Boyd: If you look at our network, it's particularly designed so we can bounce from one port to another if there's a delay or a breakdown. Just like Rex, we can swing past another port and pick people up. We have concentrated in western/north-western New South Wales—there's a lot of our routes together. To take one port

out makes it difficult. As to Armidale, on a Friday we put a bigger aircraft on and we go via Coffs Harbour. So we go Brisbane, Coffs Harbour, Armidale, back to Brisbane. That's the best way we can offer two services a day on a Friday to Armidale. If we couldn't go via Armidale then maybe Coffs Harbour would be put at peril as well. Who knows? But everything links into something else.

CHAIR: Thank you very much, Senator Patrick. I don't believe that we have any other questions for you, Corporate Air. Can I just check with the other senators that there are no other questions?

Senator PATRICK: I note that you didn't make a submission to the previous inquiry. I wonder if you could provide to the committee just a quick overview of the company. You described it at the start, but—

Mr Boyd: Andrew has had the company for over 40 years, but we've only been a regional airline for just under five years, so, off the back of a declining fly-in fly-out market, Andrew decided to go down the regional airline path. So the airline is just under five years old. I guess we were new to it when the initial inquiry came about.

Senator PATRICK: I just thought maybe if you could provide us with a two-pager that laid all that out, that would be good.

Mr Boyd: Sure. We can send that through to you.

Senator PATRICK: Fantastic.

CHAIR: Thank you very much for giving evidence this afternoon.

DACEY, Ms Christine, Acting Deputy Secretary, Aviation and Airports Group, Department of Infrastructure, Transport, Regional Development and Communications

FEAKES, Mr Richard, First Assistant Secretary, Aviation and Maritime Security Division, Department of Home Affairs

PEDLER, Mr Matthew, Assistant Secretary, Aviation Security, Department of Home Affairs

QUIGLEY, Mrs Janet, First Assistant Secretary, COVID Aviation Issues Management Division, Department of Infrastructure, Transport, Regional Development and Communications

[15:48]

CHAIR: Welcome. I remind senators that the Senate has resolved that an officer of a department of the Commonwealth or of a state shall not be asked to give opinions on matters of policy and shall be given reasonable opportunity to refer questions asked of the officer to superior officers or to a minister. This resolution prohibits only questions asking for opinions on matters of policy and does not preclude questions asking for explanations of policies or factual questions about when and how policies were adopted. Officers are also reminded that any claim that it would be contrary to the public interest to answer a question must be made by a minister and should be accompanied by a statement setting out the basis for the claim.

I invite you to make a brief opening statement before the committee asks questions. Do you wish to make an opening statement?

Mr Feakes: Yes, I'd like to make an opening statement if I may. I'll keep it brief. I'd like to thank the committee for the opportunity to appear here today and for the opportunity to speak to the aviation and transport security regulations.

Following the 2017 disrupted Sydney terrorist plot, the Inspector of Transport Security undertook a review of security arrangements at Australia's airports. The inspector made a number of recommendations aimed at improving our aviation security regulatory regime. The regulations in question directly respond to the recommendations from the ITS's review. In essence, they're about strengthening the overall integrity of aviation security and delivering a security dividend for the network as a whole. The regulations change the screening threshold, moving to one based on aircraft seats as opposed to aircraft weight. Following the ITS review, the Department of Home Affairs undertook a series of risk assessments and developed a more targeted model for airport categorisation in which smaller, lower-risk airports would not be subject to disproportionate security requirements and where airports with significant passenger numbers would be required to screen those passengers and their baggage. Again, this is about strengthening the integrity of the aviation network overall.

Since the department last appeared before the committee, there have been some changes to the number and types of airports captured in the airport tier model. We've overlaid the ITS review recommendations with a passenger number component, meaning the threshold for screening is now also considered in the context of how many passengers transit an airport on a yearly basis. The new regulations require four regional airports to commence security screening operations, but they enable seven regional airports to cease security screening. Overall, under these regulations more passengers will be screened, so there'll be a net security and also regulatory dividend as fewer airports will screen. As it stands today, there are currently 172 security controlled airports in Australia. Under the new regulations, 58 of those will be required to screen passengers and their baggage.

Thank you, Chair. That ends the opening statement.

CHAIR: Thank you very much. I have a question first from Senator Rennick.

Senator RENNICK: The people who were on previously mentioned that in the States and New Zealand there's a national scheme in place where the costs of airport security are averaged across the entire country rather than each airport having to pick up the tab. Have you guys modelled a case like that of New Zealand or the US, where it's a national program?

Mr Feakes: No, I'm not aware of any modelling that's taken place. I do know that different countries have different systems and different models. It's been a policy of successive Australian governments that airport operations are for airports to manage.

Senator RENNICK: But we're not talking about airports; we're talking about national security. It's something that we've got to get sorted out here, because we just had it with the *Ruby Princess*. I'm a member of the federal government, and it's our job to look after national security, so pushing it out onto private enterprise or other smaller bodies just leads to confusion and ambiguity as to who's responsible for what. So I think that we ought to take a good look at whether it's better for us to do a holistic national approach rather than this piecemeal airport-

by-airport approach, which is going to hurt a lot of airports in the regions. I think that, before any more changes in regulations or decisions are made, we should look at a national approach. If it's good enough for the US and New Zealand, I think it's something that we should also take a serious look at. I'll just leave it at that.

CHAIR: Do you have any comments to make about that, or are you finished?

Mr Feakes: I will just repeat what I said, which is that that's a matter for government and successive governments have had that policy.

CHAIR: Alright. Senator Patrick, I can give you 10 minutes, and then we will just check in and see how everybody else is going.

Senator PATRICK: Thank you, Chair, and thank you for your flexibility. I just want to put on record that this did come out of the security review but, in the previous inquiry, it was established that during that review the government did not consider the impact that the recommendations would have on councils and, indeed, on the air routes themselves. I just want to make sure everyone agrees with that—that there was no analysis done on the economic or civil effect of the security measures. It was narrowly looked at from a security perspective only.

Ms Dacey: I understand that that's testimony that's previously been provided to you.

Senator PATRICK: Yes, I just wanted to put that on the table. I put to you that most people in regions don't understand the phrase 'security dividend'. They never encounter that when they purchase a ticket.

The department of transport has produced a report that goes to some of the costs. I note—and this is not a criticism—that you haven't considered this in the context of COVID-19. Could you make some comment about how you think the case studies—which are very helpful, and I thank you for them—will impact circumstances. Mrs Quigley, you're clearly looking at COVID-19.

Mrs Quigley: Yes, we are. To start with, yes, these were done pre COVID, and we've been looking at the impacts of COVID on the aviation sector, and there have been a number of measures that we've put in place as a result of that. One in particular is very focused on the regional enhanced screening package, and we see that providing a direct response in relation to this particular activity. We've got about four different measures that we've put in place to respond to the immediate aviation sector challenges—which you may be aware of, but we can run you through those if you're not.

Senator PATRICK: Only if they relate to security. The Senate has received testimony in the COVID committee that, when we come out of this, we are going to have people without employment and people who have deferred payments to address—things like rental payments and mortgage payments. We are going to be in trouble on the other side of this. That's not a criticism of government. Government are trying to soften the blow and 'build the bridge', as the Prime Minister has said. But we've heard the evidence of Rex and now of Corporate Air, and Qantas has provided evidence to this committee of the harm that this security charge will cause to air routes. They're talking about a non-COVID environment. I'm wondering about the analysis you might have done, or even considered or contemplated, with this new set of circumstances.

Ms Dacey: If I may, I think we just reached a really pragmatic decision that you were very keen to do the case studies and, if we tried to do the COVID analysis over the top of it, it would just slow you down.

Senator PATRICK: That wasn't a criticism.

Ms Dacey: In general terms, what we are seeing through the sector is absolutely as you describe it; and it's not just the aviation sector, but the aviation sector is undoubtedly one of the earliest hit, the hardest hit and probably one of the last to come out of the pandemic. The current service levels are largely being run by subsidised flights that the Commonwealth has put money on the table for. So we don't kid ourselves for one second: this sector has really got some hard yards ahead of it, and probably for quite some time. In that sense, I think it is unarguable that any additional cost impacts will be less than welcome. But, counter to that, through the responses the government has put out to support regional aviation, airlines and the sector more broadly, the government has indicated pretty clearly its willingness to support the sector in a very financial way. I can't predict what they will do when we get through the bottom of this crisis and head towards a recovery phase, but my expectation is that there will be a very robust debate inside government about the need to provide support across the board.

Senator PATRICK: Noting that there are very limited flights at the moment, has there been any deliberation, or at least a discussion, on shifting right the timing requirements of this security measure?

Ms Dacey: That particular decision would definitely be one for the Home Affairs portfolio. In a general sense, there is a very live discussion going on in the cabinet and across ministers daily about what needs to happen to support what is a really critical sector. Minister Dutton would be the responsible decision-maker about that, but

the Deputy Prime Minister takes an active interest because he has broad-ranging regional portfolio responsibilities, one of which is aviation. There would be pretty good and regular conversations going on.

Senator PATRICK: Do you share that view, Mr Feakes?

Mr Feakes: I do. I am not aware of any consideration within government of shifting this to the right. We are working very closely with industry. We have a weekly teleconference with a range of industry partners to get a very clear sense of the impacts COVID-19 is having on the industry—providing questions where we can and just getting a better sense of those impacts. And, as I think you heard from one of your previous witnesses, we've provided extensions to some of the time lines involved in implementing these security enhancements.

Senator PATRICK: If this were disallowed next week—it will come up for a vote on Wednesday; I foreshadow that I am going to move it to Wednesday so that it can be debated on that day—it has little effect now anyway because there are no flights in operation. My understanding with a regulation is that, once it has been disallowed, after six months you can reintroduce it. Is that the way this works?

Mr Pedler: That's right; you have to wait six months before you can bring back the same idea.

Senator PATRICK: I want to go off on a slightly different tangent. I note that the study that the department of transport has done reveals that flights out of Whyalla will come at considerable cost and, I think, a considerable effect to the community—they'll be the Dash-8 aircraft if Qantas flies out there, and you are imposing a security requirement. Yet at Kingscote, which is actually less flying time away, you have the same aircraft but it doesn't have a security requirement. I don't want to plant any ideas anywhere, but you can see where I'm coming from. It seems totally without logic that an aircraft flies into Adelaide from Whyalla, where you are trying to establish a particular security regime, and less than half the flying time later the same aircraft takes off from Kingscote without a security requirement. Do you see where I'm coming from? I don't want to encourage anyone to do anything, but what do you say to that?

Mr Feakes: The effect of the regulations will be to have screening implemented based on the capacity of aircraft—40 seats—

Senator PATRICK: I understand the legislation; I'm talking about the effect of the legislation. If someone wants to do something awful they can fly out of Kingscote, without the security requirement, in the same aircraft but perhaps with more fuel on board. It doesn't make sense.

Mr Feakes: As I was going to say, there is capacity of seats on the aircraft in conjunction with the annual volume of passenger flow. These regulations both address the security, and they have a deregulatory effect based on proportionality of measure and risk.

Senator PATRICK: I understand that, but you're not going to the effect; you are describing the regulation. I understand the differences and what you are trying to do in having a threshold, but can't you see that when you have the same aircraft flying into Adelaide—one that is security cleared and one that is not—it doesn't take an actor wanting to carry out some awful act against the people of Adelaide to work out what they have to do? I'm talking about the practical effect of the regulation as it stands. You impose a charge upon the people of Whyalla. You are going to cause a reduction in air routes—that's the evidence the committee has received—for no benefit in protecting the people of Adelaide. Any of these security attacks you talk about are more likely to happen in Adelaide than at the point of departure. Can you explain the logic behind that?

Mr Feakes: I understand that the regulations as they are drafted, and the effect of the regulations, will mean that some airports are treated differently to other airports—based on capacity of aircraft and annual passenger flows.

Senator PATRICK: But the effect of the regulation is that, if you are trying to protect the people of Adelaide from an unconscionable event caused by an aircraft, the perpetrator will simply make a very simple choice and, in effect, all of the burden you have created at Whyalla is for nought.

Mr Pedler: The regulations change it from a 20,000-kilogram maximum take-off weight to 40 seats. There is also a policy decision there about the passenger threshold. That is a risk factor that comes into play as part of that decision. While they might be the same aircraft, the risk may be different because you have a different number of departing passengers at different ports.

Senator PATRICK: That presumes that passengers randomly decide to take an aircraft into their hands. I don't think that's the way it works. Someone makes a choice about what they are going to do and they think it through—at least a little bit. I'm not an expert in this. It took me the 15 minutes I spent reading that document to work out where I would go as the departure point if I wanted to do something. I'm suggesting to you that it makes no difference under the regime that you have, in terms of protecting the people of Adelaide, because of the way

this is set up. All we will do is harm commerce. You will harm the people of Whyalla in terms of medical support, business support, education support and family connections with people in Adelaide—for no benefit.

Mr Feakes: The equation of aircraft capacity and annual passenger flow takes into account proportionality of risk and measure. That was one of the key themes that came out of the Inspector of Transport Security's review looking at how the overall network can best be strengthened and also whether measures are proportional to the risk. One of the trends in security and risk is that there's more of a focus on people, crowded places—an aeroplane being a crowded place in the sky—high annual passenger flows, crowds. So the measures are designed to focus on crowds—larger numbers—and ensuring that that's proportionate to the risk, so that's why we've introduced a proposal to introduce a threshold based on passenger volume.

Senator PATRICK: But don't you think a perpetrator will try and find a weak link or at least make a little bit of effort to do that?

Mr Feakes: Again, the risk assessments have been based on proportionality of risk and measures put in place. Where there are more people there's greater risk and the measures need to be proportionate to that risk.

Senator PATRICK: I'll leave it there for the moment, Chair.

CHAIR: Thank you, Senator Patrick. Senator Sheldon, are you still with us?

Senator SHELDON: I am. Thanks for joining us this afternoon. As I understand it, these changes to transport security were predicated on the report completed by the Inspector of Transport Security. Has the government released the inspector's report?

Mr Feakes: No, the government hasn't released the report. It's not a document for public release.

Senator SHELDON: Why not?

Mr Feakes: My colleague will correct me if I'm wrong, but it has sensitive information in it.

Senator SHELDON: First of all, we've just talked about the moving of the goalposts, on how we deal with what is a higher risk danger from a weight perspective, to 40 people. These are serious changes to airport security more generally as well as that matter in particular. After all, the role of the inspector is to investigate, as I understand it, a systematic failure or possible weakness of aviation or maritime transport security regulatory systems in order to strengthen transport security. Given there is a disallowance motion, and Senator Patrick just mentioned it, wouldn't it be prudent for the government to release the inspector's report to provide the Australian people and the parliament with certainty about why these regulations are required?

Mr Feakes: The release of the report, as you said, would be a question for the government.

Senator PATRICK: A redacted report even?

Senator SHELDON: A redacted report? The other option is a private meeting of the committee.

Mr Feakes: I can take the question of a redacted report on notice.

Senator SHELDON: Alright. There's a question from Senator Patrick and now there's a question from me. Is there a possibility of releasing the report via a private meeting of this committee, so we can properly assess why you made this decision of the change? It is a fundamental question about the security arrangements moving to 40 people. Are you able to have a private meeting with this committee?

Mr Feakes: It would need to be done in camera. We'd also need to—

Senator SHELDON: I'd be seeking for that to occur as well—

Mr Feakes: consult the Inspector of Transport Security. It's his report, commissioned by the government.

CHAIR: Senator Sheldon, do you want to allow that question to go through on notice or does the committee want to have an in camera session?

Senator SHELDON: Sorry, I didn't hear that.

CHAIR: I asked if you would like the department officials to take that question on notice or would you like to move to an in camera session?

Senator SHELDON: It seems that it's extremely important that we get this information—in camera would be one of the ways of doing it as would a private meeting of this committee—so if you can take it on notice. It does seem extraordinary that that was not considered prior to coming to this hearing, because that has been a regular request in the short period that I've been in the Senate. At various inquiries that's been asked. It is disappointing that we haven't got a clear answer to that right now. You can take it on notice.

Mr Feakes: I'm happy to take it on notice.

Senator SHELDON: I want to say further: you say the government is implementing the inspector's recommendations and I understand that's from your earlier statement. Are you implementing the recommendations from that report in full?

Mr Feakes: I would need to check the government's response to the ITS's review, so if I could take that on notice.

Senator SHELDON: You can't tell us whether the inspector's report recommendations are being implemented in full?

Mr Feakes: There were a number of recommendations. I'd need to take that on notice to avoid misleading the committee.

Senator SHELDON: I'm not asking you at this point how many have or haven't been; I'm asking—you're giving evidence to a Senate inquiry—are you able to tell us that all those recommendations in that report have been implemented or not?

Mr Pedler: If I may, I'm saying that the government accepted a number of the recommendations and noted a number of others.

Senator SHELDON: So we've accepted some and some have been noted, which haven't been implemented. Can you tell us which recommendations from the report aren't being implemented and why?

Mr Pedler: No, I don't have that information with me. I'd have to take that on notice.

Senator SHELDON: Again, this is extremely disappointing. The system is hard enough, with this phone process that we're doing now, without not having answers about very fundamental questions about this report. I want to ask you another question. The 40-seater threshold has been one of the new requirements in place. Why was the seat threshold chosen?

Mr Feakes: The seat threshold was chosen flowing from the inspector for trade, transport security review. It was based on analysis of threats, and that analysis shows that risks are more associated with people and crowded places and less around aircraft. One of the reasons for that is that technology has led to hardened cockpit doors, which means aircraft are less likely to be hijacked and so the threat is to the people in that aircraft.

Senator SHELDON: The inspector specifically recommended a 40-seat threshold? Did he specifically recommend that number or did he recommend a range?

Mr Feakes: My understanding is that it was a 40-seat recommendation.

Senator SHELDON: Sorry, I missed the answer to that—from the inspector?

Mr Feakes: Yes.

Senator SHELDON: There was no proposition about a range being put in place?

Mr Feakes: I'm not aware of any, but I could take that on notice.

Senator SHELDON: Thank you. Was there any other ambiguity about the 40-seat threshold being included in the recommendation from the inspector?

Mr Feakes: Ambiguity in what regard?

Senator SHELDON: Was it: it shouldn't be 39, it shouldn't be 45, but it should definitely be 40? When we do 40 we should be taking into account why it's 40 rather than 39, 35 or 45.

Mr Feakes: My understanding is that it was 40-seat capacity.

Senator SHELDON: This question was raised before, but I want to explore this a bit further about an indication of what seat thresholds are in place around the globe in similar countries to Australia [inaudible]. I want to be really clear. Have you looked at New Zealand, USA and Canada at all or haven't you? I understand you've answered this before. I just want to be really clear. Did you look at the New Zealand, USA or Canada systems for their seat thresholds?

Mr Feakes: I'm not aware that we did, but I can certainly take that on notice for you.

Senator SHELDON: If you can take that on notice. This is a really critical issue about how we came up with these different figures and comparison with the weights, because this is a fundamental question about the effects on airports and airport security. Could you please advise the committee on how many regional airports and planes have fewer than 40 seats and those that have more than 40 seats?

Mr Feakes: That would be a question for the airlines. It's the airlines that determine which aircraft they operate, in conjunction with the airports. That's not a question that I can answer.

Senator PATRICK: It wasn't canvassed in the report?

Mr Feakes: I don't follow the question.

Senator PATRICK: The transport security report. I would have thought that they would have looked at that sort of stuff. It would have been canvassed in that report.

Mr Feakes: They may have. I'm not aware of that.

Mr Pedler: I understand that the Inspector of Transport Security, when he was preparing his report, did speak to a number of members of industry. I expect that there may have been discussions around that. But, as Mr Feakes said, airlines decide. Which aircraft types they fly to and from an airport is a commercial decision for the airline. It's not a question that we can answer.

Senator SHELDON: This goes back to a question that Senator Patrick asked before. I want to present it in a different way. You are assessing risk. You are minimising risk. How many planes going to an airport have fewer than 40 seats and how many have more than 40 seats? That is a matter for a risk assessment. You have not made that risk assessment or you don't know whether that risk assessment was made?

Mr Feakes: I'd need to take that on notice. Risk assessments take account of a number of factors like vulnerabilities on the ground and mitigations that are already in place. I'd need to take on notice the question of aircraft numbers above or below 40-seat capacity.

Senator SHELDON: That's separate to the answer you gave me before. I just want to make it clear: did you do a regional assessment on airports on both planes that have fewer than 40 seats and planes that have more than 40 seats? You're now saying that you have those figures available?

Mr Feakes: The details of risk assessments are not something that I can go into here, beyond saying that risk assessments for this or for other issues take account of a whole range of factors, including, as I said, mitigations that are currently in place at airports and vulnerabilities. Going to your question of how many aircraft have a capacity of 40 seats or more: I can't tell you that; I'd need to take that on notice.

Mr Pedler: We did receive information and data from the Bureau of Infrastructure, Transport and Regional Economics, which includes the passenger numbers and the weight of the aircraft that fly to different areas. They were part of the consideration.

Senator SHELDON: Maybe I'm misunderstanding your answer, so my apologies, but I want to be really clear: are you aware that there was a study on how many planes above 40 seats and below 40 seats were going to each regional airport? We heard evidence from Whyalla. You would do Armidale and those airports that you're considering. How many had fewer than 40 seats and how many had more than 40 seats?

Mr Pedler: The consideration would have been around which airports received aircraft of over 40 seats and which did not, rather than the individual numbers—

Senator SHELDON: Just so I'm clear: you didn't do the number of actual planes that were coming in or out that were below or above 40 seats?

Mr Pedler: The number of individual flights changes. That's an airline decision.

Senator SHELDON: I appreciate that flights change, but there's a pattern of risk that would occur over the previous 12 months, and then you would make an assessment of risk on the future 12 months and beyond. I would have thought that those sorts of things would be taken into consideration. You may well take it out a bit longer than 12 months or shorter than 12 months, but you would certainly do an assessment. So you didn't do an assessment on how many planes going to each airport are likely to be above or below 40 seats?

Mr Pedler: No. The question was whether or not the airport received aircraft greater than 40 seats or not, not how many aircraft greater than 40 seats.

Senator SHELDON: To me that goes to a very important question. It's a threshold question about the risk of terrorists simply shifting their proposed terrorist activity from a 737 to a Dash 8. The potential risk is escalated. It would seem obvious that there is a large number of low-40 seaters. That's a risk assessment. If it's none, then it's no risk; if it's more, then it's increased risk.

Mr Pedler: If I may, that's where taking into account the passenger threshold plays into the risk. It is not only the 40-seat threshold but also passenger numbers. For an airport to be screening, they will be required to both be taking aircraft over that 40-seat limit and also have a minimum number of departing passengers.

Senator SHELDON: I'm aware of that. Thank you for the evidence that's in your previous submissions. The point I am raising is that, if you have no planes, or additional planes, that have fewer than 40 seats, that is simply giving an opportunity for potential terrorist activity. That's my point about activity, whether it's a 737 in comparison with a Dash 8. That study has not taken place. If the government refers back to the previous weight

based threshold, in saying that that also created a similar issue—we discussed the previous security arrangements. With the new regulations in place, is there another distortion? We now have a distortion. We had weight before, the really critical issue, in comparison with the number of people. Are you able to shed light on why we shifted off weight—weight was obviously a highly considered recommendation before—now that we've shifted to 40 seats?

Mr Feakes: As I said in my earlier answer, part of the Inspector of Transport Security's review focused on that issue of weight, aircraft capacity and the risk trend being more towards crowded places, based on people, passenger numbers, passenger flows and less on actual aircraft weight.

Senator SHELDON: I appreciate that that's the change you made in regard to the weight. The point I'm making is that the weight question that was in there before was actually heavily weighted towards a security risk, and you've not done an assessment on the risk that's involved with any given airport, because we don't know how many with more or fewer than 40 seats go into the airport. Moving on to another point: given there is a substantial cost saving for airlines to fly smaller planes, do you believe the regulations create—

CHAIR: Could I ask that that be your last question so that we can give other people an opportunity?

Senator SHELDON: Yes. Given there was a substantial cost saving for airlines to fly smaller planes, do you believe the regulations create a perverse incentive for airlines to fly smaller planes to avoid security costs, but that that would simultaneously increase security risk?

Mr Feakes: The aircraft that airlines choose to fly is a matter for them.

Senator SHELDON: We're talking about security risks, assessments, recommendations and regulations you're putting in place to make this country more secure, but you're saying: 'If they make it less secure it doesn't matter. It's not our job.' That is fundamentally not a risk assessment.

Mr Feakes: With the existing 20,000-kilogram screening threshold, airlines could choose to fly aircraft below that limit. As I said, it's a matter for the airlines to choose which size or weight aircraft to fly.

CHAIR: Thank you, Senator Sheldon. I will move to Senator Sterle.

Senator STERLE: I'm asking the officials: do you have the Inspector of Transport Security's report in front of you?

Mr Feakes: No, I don't.

Senator STERLE: Why not?

Mr Feakes: I don't have it in front of me. I didn't bring it.

Senator STERLE: You were coming to a Senate inquiry today. You didn't think we were going to ask about the report?

Mr Feakes: It's a classified document.

Senator STERLE: I didn't say, 'Did you post it on every bloody lamppost in Canberra.' I asked you, 'Do you have a copy?' You're not even competent enough to come here with a copy.

Mr Feakes: I don't have—

Senator STERLE: So this is your cover-up—your backside-covering episode—where if you can't talk about it, you'll take it on notice.

Mr Feakes: I don't have the—

Senator STERLE: Well, do you know what? I want to go into Canberra, then.

Mr Feakes: I don't have the Inspector of Transport Security's report with me today.

Senator STERLE: This is pathetic. Let me try another thing, alright? Who do they consult with from the transport industry? Who did the Inspector of Transport Security actually sit down with to decide that they would move from the take-off weight to the 40-carrying capacity—not 40 passengers on a plane—where we've heard that planes carrying more than 40, in many airports, fly in with under 40? Who did they sit down with?

Mr Feakes: Going back to April 2018, there was very extensive consultation with—

Senator STERLE: Don't give me a long, bureaucratic, drawn-out, crappy response to try and put me off.

Mr Feakes: airports, with screeners—

Senator STERLE: It's against time. Just answer my question, please.

Mr Feakes: There was extensive consultation going back to April 2018—

Senator STERLE: With who?

Mr Feakes: with screeners, with airports, with airlines, with state governments—

Senator STERLE: Well, can you list them for us?

Mr Feakes: I can take—

Senator STERLE: You don't have the report in front of you. But you know that, so can you tell us exactly who you negotiated with or who the government talked to. Don't give me [inaudible]. Tell me who they are.

Mr Feakes: I didn't get the question.

Senator STERLE: I said: let's not have long, drawn-out, bureaucratic responses that don't answer the question. You don't have the report in front of you, but you can tell me the groups of people that were consulted. I want to know who the airlines were that were consulted that led to the decision that we would move away from maximum take-off weight to a number of passengers a plane can carry. If you're going to crap on about taking it on notice, I'm going to give up. I don't want to waste any more of my time. We'll do it again in Canberra.

Mr Feakes: As I said, for about two years now, there's been a lot of consultation across the industry. Various sectors—

Senator STERLE: With who?

Mr Feakes: I can take that on notice.

Senator STERLE: Don't keep trying to put me off. Just do something different—answer.

Mr Pedler: If I may—

Senator STERLE: Come on.

Mr Pedler: There is the Inspector of Transport Security, who's independent from the department and was with the department in some form at the time. He consulted with industry. We would have to find out and take on notice who he consulted with. I don't have that here now.

Senator STERLE: Bullshit. You know who they are. Which airlines did the inspector consult with?

Mr Pedler: I don't know off the top of my head. I would honestly need to take it on notice.

Senator PATRICK: Did they consult with councils?

Mr Pedler: They consulted with a range of stakeholders. I don't know the list of stakeholders they consulted with.

Senator STERLE: What about anyone else sitting next to you? How about the people at the back of the room? Don't tell me all the officials from the department can all sit there with absolutely no idea who was consulted. You've been working on this for how many years now? There's not that many damn airlines in Australia, for crying out loud.

Mr Pedler: If I may, there are two questions there. One is about the Inspector of Transport Security and who he consulted with. With our own consultation, we have a number of industry forums that include—and we speak to them regularly—Qantas, Virgin, Rex and Alliance Air. They are all part of our regular consultation as well as all of the major airports and all of the regional airports.

Senator STERLE: So who came up with the 40 threshold—the 40-seat planes rather than the take-off? Don't try the same answer that you did with Senator Sheldon. Just tell me who did that.

Mr Feakes: The 40-seat capacity threshold was contained in the Inspector of Transport Security's review commissioned by the government. The regulations we're seeking to implement flow from that review.

Senator STERLE: Which airline sat there and said: 'We kick off on this. We think it's a good idea to move from maximum take-off weight to 40-seater planes'?

Mr Feakes: As Mr Pedler said, we consulted very closely with the airlines—

Senator STERLE: Which airlines? Stop going around the merry-go-round. You can't answer it, or you don't want to answer it.

CHAIR: Senator Sterle, could I suggest that we do this again next week in Canberra? We have a sense that he's been advised, and I think we're all here to learn stuff, so let's come back to this next week.

Senator STERLE: I'm very happy to—

Senator PATRICK: You dropped out there.

Senator STERLE: I'm more concerned about the regions out there, so I'm happy to do that. Hopefully we can get this rubbish technology that I'm struggling with here on my device [inaudible]. I want actual truth. I'll come back to you next week again. Send someone from the department who does know the answers.

Senator RICE: I'm here with my cat, so she's paying attention as well! I wanted to ask about the financial analysis of the impact of these changes and what has been done. I'm sorry; having missed a bit of the hearing this morning, I'm not sure whether that has been provided to the committee. So could I first ask about whether there has been a thorough financial analysis of the changes and the impact on the regional airports?

Mr Feakes: The Department of Home Affairs consulted the Office of Best Practice Regulation, and their advice to us was that there was no regulatory impact statement that was needed.

Senator RICE: So there hasn't been a financial analysis done at all?

Ms Dacey: I think the halfway measure that was reached through several iterative hearings was that these case studies would be from the analysis that was provided for a randomised sample of airports. As you would have seen, they were provided to the committee last night. As you'll see, when you get to read through them, they include some airports that will drop out of the screening regime and some that will come into it. We've tried to pick six that represent a full suite of potential impacts.

Senator RICE: I haven't had a chance to look at those case studies yet. I want to follow up from the questions that Senator Patrick was asking before about whether there have been any case studies or what financial analysis has been done, what the assumptions are in this now COVID affected world and what the assumptions are going to be about how particular airports are going to be affected.

Ms Dacey: I think the reality is absolutely no assumptions could be made that had any meaning. We are two months into the pandemic, and I think if we had waited for what we thought were a stable set of assumptions and any stable data, we would probably be here many, many months hence. So the decision was made to provide pre-COVID information, which provides some level of information to the committee. I would say that the case studies were derived using data that was provided from the airports themselves. It hasn't been independently validated. The assumptions that each individual airport made were for that airport to make. We've said that in the report. There might be some variations in some of the conclusions that you can draw, but we thought we were operating in good faith to hand over what we had.

Senator RICE: So those case studies were based on pre-COVID conditions.

Ms Dacey: Correct. The data that we have on the—

Senator RICE: Do you agree—

Ms Dacey: Sorry.

Senator RICE: That's okay. Do you agree that, post-COVID, things aren't going to be the same again?

Ms Dacey: For a period of time, yes.

Senator RICE: For aviation in particular, I think, for quite a long time, we're going to have changed conditions because of the impact of COVID, and yet you have done no analysis as to what the impact of those changes are actually going to mean and what the financial impact of this changed regulation is going to mean in a post-COVID environment.

Ms Dacey: We are living in the midst of the pandemic now. We are getting data from airlines now on what the subsidised routes are. So that does not represent, in any way, shape or form, real-world data. We are also conscious of not asking the airlines to swing in and provide more information. Airlines and airports are being very honest with us, talking about the fact that they have had to stand down staff. They are running on skeleton crews. The notion of the government coming along and asking for another set of data at a time like this, I think, would not be welcomed by them, and we don't think it's the right thing to do. We can talk with you at a very macro level about some of the things that we are seeing, but I think we are nowhere near having a full understanding of the full range of impacts. I don't mean to say we don't empathise with what's going on the sector—we've certainly got a good handle on the fact that passenger movement numbers and flight numbers are anywhere between 90 and 98 per cent down on where they were in the equivalent month last year—but I just think our ability to provide that level of analysis in any granular detail to the committee would be several months away.

Senator RICE: Can I just confirm that, given this complete uncertainty, the government still considers it appropriate to continue with this change at the present time.

Ms Dacey: There is no doubt that the sector is under pressure. I think the government has responded in a very significant way to provide support to the sector. I think that this specific matter is not for the department of infrastructure. I would note that the level of complexity and the sheer number of impacts that are being felt across the sector are many and varied, and that we have very good processes, including through the national cabinet and the Australian government cabinet, to ensure that the totality of the impacts is being discussed at the right levels inside government on a very, very regular basis.

Senator RICE: In terms of consideration, is there an expectation that not all regional airports will survive?

Ms Dacey: I wouldn't like to speculate. The regional airports are providing all sorts of information anecdotally through their local members and senators. We continue to be in an active dialogue about—

Senator RICE: But is one of the scenarios that government is looking at that not all regional airports will survive?

Ms Dacey: The government is looking at all the potential impacts of COVID right now.

Senator RICE: Does that include a scenario where not all regional airports survive?

CHAIR: Hopefully it will not come to that! I will now go to Senator Antic.

Senator ANTIC: I'm interested in Senator Patrick proposed disallowance of the regulations. I'm interested in Home Affairs' view on the practical impact of that, if that disallowance motion were to get up. We talked with some of the other witnesses earlier about some of the grants that have been given to regional airports and whether the airports will still be eligible for those grants if the disallowance motion is successful.

Mr Feakes: Taking that last part first: whether the grants are still available to airports will be a decision for government. That's not a question for me; that would be a decision made by the government.

Senator PATRICK: That would be the case for new grants, but for airports that are already funded the grants will have to stand, won't they?

Mr Pedler: Since the majority of airports are already screening and will continue to screen, they will clearly retain their funding.

Mr Feakes: On your question about the practical effects, Senator Antic: if the disallowance motion gets up, seven airports will be screened and four will cease to be screened.

Senator ANTIC: That's a bit of a concern, I would've thought, from a security point of view.

Mr Pedler: Yes, I think that's right. If the current regulations stand and the regs are disallowed, it means that seven smaller airports will be required to continue screening and that those other four, which have larger passenger numbers, will not be required to continue screening. It is a better outcome from a security perspective and for the integrity of the entire system, as well as a better regulatory outcome in terms of fewer airports being required to screen.

Senator ANTIC: We had witnesses from Whyalla council talking about funding for Whyalla Airport. They indicated they had sought funding of \$5 million for a new terminal. Has that request been considered by the department? If it hasn't, how come?

Mr Pedler: With the original grant funding, the Regional Airport Security Screening Fund was set up to only allow a maximum of \$1 million for infrastructure for those airports that were going to be introducing X-ray screening. There wasn't the ability through that fund to allow for more; that was the appropriation that was made at the time. I'm not aware of any further discussions with government or whether there was a decision to provide additional funding. It's not something that's being considered.

I might just add that, under the support packages that Infrastructure are managing, there is money set aside to support regional airports to introduce screening equipment. I'm hoping Infrastructure might speak more on that.

Ms Quigley: We have, in amongst the airline support package, provided \$66 million to support enhanced regional screening. That's intended to provide not only capital expenditure but also 12 months worth of operational expenditure.

Ms Dacey: I would add that that amount came about through a co-design process with the sector. That announcement was made very early on in the pandemic. We worked very closely with industry. It comprises a number of different streams of funding. The most relevant one is exactly about this issue. That was the amount of money that the sector asked for and that is the amount of money that has been provided for under that fund.

Senator ANTIC: Earlier, the passenger security screening enhancements report was mentioned. I am interested in that, particularly in whether it was prepared within the department or by an external consultant. Could I hear a little bit about the genesis of that report.

Ms Quigley: The report was developed within the department. We prepared a business case informed by the Department of Home Affairs' costings. We then selected six airports based on a geographical spread but we were also looking at a variety of passenger number throughput to link into the overall policy. We asked the airports to provide information on what they felt were the assumptions and costs related to standing up the security measure. Those discussions occurred between October last year and February this year. We also consulted with airlines to

ensure that they had a consistent and similar view of what the cost expectations were. Then we pulled those six business cases together. That was sent through last evening; that's what you've got.

Senator ANTIC: Where did the information used to cost the financial impacts come from?

Ms Quigley: Those assumptions were developed by the airports. They also factored in some of the earlier assumptions of Home Affairs.

Senator ANTIC: I think the report states 'the information it estimates to inform the security screening costings was gathered from', and then it goes on to list the six study airport operators. Was that information taken at face value or was there further digging?

Ms Quigley: We did have a series of conversations with the airports to understand how those assumptions were informed. But it is information that has come directly from the airports, and we haven't done any independent validation of those figures.

Senator ANTIC: Is there some problem with accepting that information at face value, or is that standard practice?

Ms Quigley: We didn't do a validation for the committee, probably because of the timing. I think it would strengthen the assumptions if we were able to do some external validation of those figures.

Senator ANTIC: I raise that because there's some concern that suggested costs might be overstated. In the case of Whyalla, for example, it stated that five screening staff will be required for 10 hours each day to screen 17,500 passengers per year, which equates to about 48 a day. Is that realistic?

Ms Quigley: I think, again, we relied on the airports and it would also be linked to the number of passengers and how the schedule of flights was operated. That influences the security arrangements and the operational staff, but we would need to, as I say, do that external validation to be able to check those assumptions in more detail.

Senator ANTIC: Chair, I've just got a handful of further questions. They'll be very brief. Page 22 of the report states that in the case of Whyalla the new screening requirements require an additional cost of \$51.20 per screened passenger which, if passed on in full, may actually represent a 35 per cent increase in the ticket price. Do you have any evidence of modelling that you used to inform this assertion? Would you agree ticket pricing is a lot more complicated than that and the simple arithmetic suggested by the report? There are a lot of supply and demand factors, I guess.

Ms Dacey: I think you are right to make that observation. We have tried to be very transparent through the report about the fact that the data came from the airports, that it was pre-COVID data, that we have not sought to externally validate it and that the assumptions were at a point in time. I think there's also some mention in there that a variety of line items go into a ticket price, that there are commercial agreements that get reached between airports and airlines, and that councils have different arrangements for their funding of their local airports. I think there are a number of variables in there, but we have just tried to be transparent about that fact in the drafting of these case studies. I don't seek to put a judgement on that.

Senator ANTIC: No. I think the report says that the cost of an airfare from Whyalla to Adelaide is \$143. Do you think that's unreasonable in the circumstances? What would an equivalent fare from, say, Canberra to Sydney be, which is a similar distance?

Ms Dacey: That's completely a matter of what time of the day you fly, what time of the year you fly, what the revenue maximizing is and what the revenue yield teams inside the airlines come up with. I think you can get tickets for \$140 and tickets for \$300 in sitting weeks. It's highly variable.

Senator ANTIC: Was there any factoring in of the broader economic concerns of an incident—for example, the impact on regional communities and the tourism sector if there was to be a security incident?

Ms Dacey: There's absolutely no doubt that regional Australia, like the rest of Australia, would like to think that they are travelling in a safe and secure environment. I think that is unquestionable.

Senator ANTIC: Relative to other input costs—such as the cost of the aircraft themselves, the airports, the staffing and so forth—how much impact would you say the cost of the security measures themselves has on a seat, on the price of a ticket?

Ms Dacey: We would be guessing; we are not experts at setting airline ticket prices.

Senator ANTIC: But you would say that security is obviously something which is essential to the aviation sector?

Ms Dacey: It's one of very many factors.

Senator ANTIC: Thank you.

CHAIR: Thank you, Senator Antic. Senator Patrick has a very quick question.

Senator PATRICK: I have a very quick question for Home Affairs. In providing the grants for the equipment—so you have paid for the equipment at these airports—have you provided enough equipment such that there is redundancy? I imagine that if a piece of screening equipment goes out of action it's going to stop the airport.

Mr Pedler: When we looked at the funding, we based it on the number of units that airports had in use. For those pieces of equipment that didn't meet the new standards and that would need to be replaced, we replaced like for like. So if they were using an X-ray machine that didn't meet the standard they would receive funding for a new X-ray machine.

Senator PATRICK: If it gets one it could be in a situation where, if it becomes faulty, that will stop flights—is that how it works?

Mr Pedler: No, Senator. There are some mechanisms for contingency for just that circumstance because, if equipment goes offline for a short time, there are contingencies built into our screening notices to allow for alternative measures.

Senator PATRICK: Thank you.

CHAIR: Terrific. That concludes today's hearing. I thank all the witnesses here and I thank Hansard and Broadcasting for putting it through the technology. I should just say the deadline for questions on notice is 11 May.

Committee adjourned at 16:55