



28 February 2020

The Hon Josh Frydenberg MP  
Treasurer  
Parliament House  
Canberra ACT 2600

Via email: [prebudgetsubs@treasury.gov.au](mailto:prebudgetsubs@treasury.gov.au)

Dear Treasurer,

**RE: QANTAS GROUP SUBMISSION TO COMMONWEALTH BUDGET 2020-21**

In reference to the upcoming Commonwealth Budget for 2020-21, I would like to bring the shortfall in funding for mandated regional aviation security measures to your attention.

The Qantas Group is proud of its safety and security record and partners with governments and airports to protect its passengers, people and operations. The Qantas Group supports a “threat and risk-based” approach to security regulations and requirements. We also have significant experience in delivering aviation security at the former Qantas-leased terminals at major airports.

As the national carrier, we play a vital role in supporting connectivity, jobs and businesses in regional Australia. The Qantas Group operates Australia’s largest regional flying network to 48 regional airports, carrying millions of passengers each year. Deloitte Access Economics found that in FY2019, the Qantas Group was responsible for over 5,800 jobs and added \$1.635 billion of value in regional Australia. We procure from over 1,200 regional businesses, from food and wine to accommodation for pilots and cabin crew.

**Enhanced aviation security at regional airports**

In May 2018, the Government announced a suite of enhanced security screening measures at Australian airports to further strengthen our borders. These represent the most significant step-change in the history of aviation security. The Qantas Group supports these measures and has been working with airports on their implementation.

The *Aviation Transport Security Amendment (Security Controlled Airports) Regulations 2019* (“Regulations”) implemented the enhanced measures on 19 December 2019. The Regulations require most regional airports to introduce body scanners and upgrade enhanced X-ray equipment for carry-on and checked baggage screening. For some regional airports, these Regulations require them to screen passengers for the first time.

To facilitate the changes, the Government committed \$50.1 million over four years from 2018-19 towards equipment costs at up to 64 regional airports. Recently, the Department of Home Affairs expanded the coverage of funding for airports which do not currently conduct security screening by allowing them to apply for a grant of up to \$1 million for infrastructure changes.



## **Financial impact of new measures**

The Qantas Group believes the cost of implementing these security changes at the major and regional airports is in excess of \$1.3 billion. Airports charge these costs through to airlines, often with the addition of a commercial margin. Indeed, the Australian Airports Association has estimated the total cost at up to \$2 billion, which may indicate some inefficiency or excessive charging by airports. Airlines in turn pass the costs of security to passengers in full or partially, subject to competitive market conditions.

Since the 2018 announcement, the Qantas Group has proactively engaged in discussions with airports to plan the rollout of enhanced screening. It has become evident that the \$50.1 million funding for regional security upgrades is insufficient and, unless remedied, could lead to unsustainable increases in security costs to travellers. This shortfall is most critical at Tier 1 and Tier 2 regional airports, which will see an average increase of 35 per cent in per passenger security and consequential infrastructure charges.

Regional passengers on Qantas Group and Virgin Group airlines are disproportionately affected by the new requirements. Under the new Regulations, at certain airports, passengers on aircraft with more than 40 seats will need to be screened while those on smaller aircraft will not. Wagga Wagga is one such airport which is required to screen all Qantas passengers while permitting passengers flown by another airline to board their aircraft unscreened. As a result, Qantas passengers will pay 100 per cent of the cost of screening despite Qantas services carrying 75 per cent of passengers at Wagga Wagga.

## **Funding shortfall in regional security**

The Qantas Group utilises consistent principles to assess all proposals for security infrastructure and operational upgrades presented to us by airports.

In response to our recent requests, most Tier 1 and Tier 2 airports in the Qantas Group network have provided cost estimates for upgrades to implement the new Regulations. As a result, we have been able to estimate a shortfall of approximately \$45 million in funding for security-related capital costs at regional airports in the Qantas Group network. This comprises approximately \$4.5 million for new equipment and \$40.5 million for associated, necessary infrastructure works at all Tier 1 and Tier 2 airports in our network. The total shortfall will be higher as we have not included regional airports outside the Qantas Group network. The details and assumptions behind these estimates are presented on a strictly confidential basis at Attachment 1.

Developing accurate estimates for operating costs has been challenging as many airports are yet to determine their additional staffing and maintenance requirements. The Qantas Group has been informed of at least \$13.3 million of expected operational cost increases (see Attachment 1); however, most estimates are preliminary, and, in our experience, operational cost increases are likely to be \$17-20 million annually over the forward estimates.

One central Queensland airport advised the Qantas Group the new measures require an investment of approximately \$4.25 million in major terminal works to accommodate body scanners and other screening equipment. Additional annual labour costs of approximately \$200,000 are expected at that airport. Another example is a small airport in Far North Queensland, which require up to \$8 million of major terminal works to accommodate the change from hand-held screening devices and walkthrough metal detectors to advanced body scanners.

Safe and secure air connectivity is critical for tourism, trade, jobs and quality of life in regional communities. The capacity of regional travellers to pay additional charges is extremely limited, as is the ability of regional airlines to absorb additional costs. Many regional air routes operate either at a loss or on wafer-thin margins due to a lack of economies of scale, high fixed and variable costs and higher cost of fuel at regional ports.

Indeed, in the past two decades, at least 18 regional airlines have ceased operations in Australia. These issues are well documented in the 2019 Senate Standing Committee on Rural and Regional Affairs and Transport's *Report into the Operation, Regulation and Funding of Air Routes*.

The Qantas Group submits that it is in the public interest for the Government to provide additional funding for regional aviation security of up to \$45 million for capital expenditure over two years to ensure a sufficient level of security to address heightened risks to aviation, while facilitating efficient travel and tourism.

### **Preventing inefficiency and excessive charges in aviation security**

In general, Australian airports are not incentivised to deliver security services in an efficient, transparent or cost-effective manner. Gaps in the regulatory framework have created unintended consequences – enabling many airports to avoid scrutiny regarding their security charging and exercise their market power on security services. The Qantas Group will continue to seek regulatory reform to deliver aviation security efficiently, while minimising cost and impact to the passenger experience at airports.

For the purpose of the upcoming Budget, the Qantas Group proposes that any additional funding for regional security be conditional upon airports being able to illustrate, through a statement of consent, that the airlines operating to that airport also support their funding application. This simple measure would have the effect of compelling airports to engage transparently with airlines on security risk mitigation and commercial costs, which in turn would improve the effectiveness and transparency of airport proposals. It would also ensure value for investment for travellers and taxpayers. The Qantas Group also proposes that any additional grant funding that airports receive are excluded from their asset base for the purpose of charging travellers.

I trust you will give this submission due consideration and welcome the opportunity to discuss any of these matters further.

Yours sincerely,



**Andrew Parker**

Group Executive, Government, Industry, International, Sustainability