

19.1 CORPORATE SERVICES

19.1.2 Whyalla Airport Passenger Screening – Update – CONFIDENTIAL

Council Meeting: 15 May 2023
Author’s Title: Director Corporate Services **File No.:** 0-216
Directorate: Corporate Services

Annexures:

- A – Correspondence to the Hon Minister for Infrastructure, Transport, Regional Development and Local Government (the Minister)
- B – Correspondence from the Minister

Officer Direct or Indirect Conflict of Interest:

In accordance with Local Government Act 1999, Section 120

Yes

No

Status:

Information classified confidential under Section 90(2) of the Local Government Act

Yes

No

Reason – A report containing commercial information of a confidential nature, the disclosure of which could reasonably be expected to prejudice the commercial position of the Council.

RECOMMENDATION

Pursuant to Section 90(2) and (3)(b) of the Local Government Act 1999, the Council orders that the public be excluded from the meeting with the exception of Justin Commons; Chief Executive Officer, Kathy Jarrett; Director Corporate, Kristen Clark, Director City Infrastructure, Jade Ballantine; Director City Growth, Grant Jennings; Manager Finance, Irene Adair; Manager Governance, Lisette Symons; Executive Co-ordinator – Corporate and Naomi Jarvis; Executive Co-ordinator – City Infrastructure for Agenda Item 19.1.2 – Whyalla Airport Passenger Screening – Update.

The Council considers that the requirement for the meeting to be conducted in a place open to the public has been outweighed in circumstances where the Council will receive and consider a report containing commercial information of a confidential nature the disclosure of which could reasonably be expected to prejudice the commercial position of the Council.

PURPOSE

To seek Council's decision regarding the ongoing funding of security screening services at the Whyalla Airport.

BACKGROUND / DISCUSSION

By way of background information, on 27 February 2023 Council resolved to commence implementation of increasing the passenger levy for all departing passengers if funding for the provision of security screening services is not continued by the Federal Government.

Further to this, on 4 April 2023 Council requested the administration test with Qantas the charging of full screenings costs, and to advise the Federal and State Governments of the very high likelihood of one of the airlines withdrawing from Whyalla.

The following is the latest update on steps taken.

Correspondence to the Federal Government

Provided at **Annexures "A" and "B"** is a copy of correspondence forwarded and response received from the Federal Minister for Infrastructure, Transport, Regional Development and Local Government. As will be noted, the Minister is clear that it has been the position of successive governments that industry is responsible for meeting security screening costs. Accordingly, no further funding for these services will be forthcoming.

Qantas – meeting held 1 May 2023

Qantas representatives reinforced their support for airport security screening services, noting that everyone benefits from an all users pay system.

During discussions, Qantas commented:

- Should QANTAS end up with the full cost of screening as a result of Rex leaving the route, the economics/viability of the route would be continuously assessed, including in the context of where an asset is best deployed across the network.
- Should the full screening costs be passed on to Qantas, with Rex still operating with no screening costs, the same assessment would be made, with the level of demand that was being serviced by a competitor with a lower operating cost being a key relevant factor.
- Should Rex withdraw from the service, Qantas would review increasing services as part of their network review. Any increases would be dependent on demand/capacity/profitability on a route by route basis.
- As the market unfolds, they will discuss with Council when things are being re-assessed.

Rex – follow up meeting held 5 April 2023

Rex reiterated their position that they would exit the route if any costs of screening were passed onto them, as a point of principle. They believe that screening costs are only applicable because of the size of plane that QANTAS have chosen to bring to Whyalla and so only QANTAS should be required to pay.

Where to from here?

Salient points are:

- Any additional funding from the Federal Government will not materialise. Very clear statements from the Federal Government, are that costs for security screening services are to be passed on to the airlines.
- The trigger for security screening at Whyalla airport relates to having passenger numbers above the threshold of approximately 30,000 and Qantas using aircraft carrying over 40 passengers.
- Rex airlines have strongly indicated they will withdraw from Whyalla if the levy is implemented.
- Qantas have indicated that they can upsize over time if they were the only carrier servicing the airport, while Rex indicated that they were already struggling to service their existing network.
- Passenger numbers are slowly increasing following Covid and are anticipated to increase further as the renewable energies investments are realised.
- Should Qantas withdraw, therefore negating the need for security screening, the investment in the Whyalla airport will reduce in value and will also limit Whyalla's prospects of attracting larger aircraft and more visitations.
- Should the levy not be raised on Rex, the levy to be charged on Qantas passengers increases to at least \$80 per departing passenger.

On the basis of current circumstances, it is recommended that Council resolve to pass the security screening costs on to all airlines operating from the Whyalla airport.

Should Council resolve consistent with this recommendation, the following steps will be taken:

- Formal advice to both Rex and Qantas via correspondence to be sent by Wednesday 17 May 2023.
- Communication to various airport stakeholders including the current provider of security screening services, various contractor staff working at the airport, council staff. This communication will be undertaken at the same time as advice is provided to Rex and Qantas.

Regardless of the decision of either Qantas or Rex, it is further recommended that investigations be undertaken regarding attracting other airline(s) to Whyalla and alternative operating models for the Whyalla Airport. To this end, the Administration will prepare a report for Council's consideration at a future meeting..

RECOMMENDATION

Council:

- 1. notes the report 'Whyalla Airport Passenger Screening – Update;**
- 2. resolves to pass security screening costs on to all airlines operating from the Whyalla airport;**
- 3. requests Administration to develop a plan for parallel investigations into attracting other airline(s) to Whyalla and alternative operating models for the Whyalla Airport; and**

4. **Having considered Agenda Item 19.1.2 – Whyalla Airport Passenger Screening – Update in confidence, under Sections 90(2) and (3)(b) of the Local Government Act 1999, the Council pursuant to Section 91(7) of the Act, orders that this Report, any Annexures to this Report and the Minutes pertaining to this report be kept confidential and not available for public inspection except insofar as is necessary to implement the Council decision until February 2028 (five years), on the basis that it contains commercial information of a confidential nature the disclosure of which could reasonably be expected to prejudice the commercial position of the Council, notwithstanding that it will be reviewed annually in February of each year.**

11 April 2023

Annexure "A"

Hon Catherine King MP
Minister for Infrastructure, Transport, Regional Development and Local Government
 E: catherine.king.mp@aph.gov.au

Dear Minister King

Urgent - Security Screening at Whyalla Airport

Our Council Members have requested that I make contact with you to organise an urgent meeting regarding Security Screening at Whyalla Airport. I thank you for the time taken to attend previous meetings on this topic. On this occasion, they have requested that I put to you the facts of the very difficult decision before them - in what is considered a 'no-win situation'.

The decision before Council can be broken down into two key options:

- Charge a security screening levy to all departing passengers, likely to be in the order of \$40; or
- Only charge a security screening levy to QANTAS departing passengers, likely to be in the order of \$80.

The pros and cons of each of these decisions are outlined in the table below.

Option 1: Charge for all departing passengers	Option 2: Charge for only QANTAS departing passengers
<p><u>Pros</u></p> <ul style="list-style-type: none"> - Most defensible position from a market neutrality perspective - Security charges will be passed on to passengers, in line with Federal Government expectation - Screening services definitely continue, ensuring corporate knowledge isn't lost and that screening equipment doesn't become obsolete - QANTAS have indicated capacity in their network to increase schedule if Rex depart 	<p><u>Pros</u></p> <ul style="list-style-type: none"> - Security charges will be passed on to SOME passengers, partially in line with Federal Government expectation - In line with the position taken at Port Lincoln airport - Rex currently have a higher number of flights and carry more of the network capacity currently should QANTAS was to leave



<p><u>Cons</u></p> <ul style="list-style-type: none"> - Rex have advised that this will result in them leaving the route - Will likely result in the same cost to QANTAS as the other option (at least in the short term), but without competition - QANTAS price point is already slightly higher, so a bigger ticket price impact is likely - Knock on effect to Whyalla Travel and Cruise, with possibility they become unviable and close 	<p><u>Cons</u></p> <ul style="list-style-type: none"> - Genuine possibility that QANTAS will leave the route as their ticket price will be significantly higher than Rex - Not an equal playing field for both airlines - If Qantas leave, high possibility that screening services will cease - meaning job losses - screening equipment will not be maintained and quickly fall into obsolescence - Council will need to go through the process of re-appointing a contractor again in the future and likely to need new screening equipment as it will quickly fall into obsolescence if not used - Rex have indicated that they have little/no capacity to increase schedules/services if QANTAS leave and are already struggling with their network currently
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The only other options are:

- Cease screening entirely and inform QANTAS that they can no longer use the facility – Option 2 above is considered to be superior to this option but may ultimately have the same final result if QANTAS leave the route voluntarily.
- Partially or fully subsidise the cost of screening with ratepayer funds – Council is already in a deficit position and has no capacity to absorb additional costs, notwithstanding that this is not considered to be a desirable outcome even if capacity existed, as communicated previously by the Federal Government.

In effect, Council is being asked to make a decision that will most likely result in one of the two airlines ceasing services to Whyalla, reducing competition and ultimately increasing ticket prices far beyond the already significant cost of security screening.

While one of the two airlines have indicated that they have capacity to service the current demand level on their own, this provider currently only carries 40% of our passengers, and this service increase is likely to take an extended period of time to mobilise.

This means that there will be higher ticket prices and insufficient seat numbers at a time when activity within Whyalla is set to explode. Below are just some of the recent developments occurring within our area:

- Last week, both the South Australian Premier and Federal Minister Industry and Science were in Whyalla for GFG’s contract signing for purchase of a \$500 million **electric arc furnace at the Whyalla steelworks**, to move to green steel production by 2026.
- The State Government recently received 29 proposals for the construction of the South Australian **Hydrogen Jobs Plan** electrolyser, hydrogen storage facility and hydrogen power plant in Whyalla Barson, with a proposed completion date in 2025.



- The State Government has signed land use agreements with six (6) proponents to build a hydrogen export facility at the **Port Bonython Hydrogen Hub**. The footprint of this site is expected to exceed the current land parcel, and discussions are being held to access Army land at Cultana, as part of the land swap under negotiation for the Osborne shipyards.
- The State Government is currently developing the business case for the **Northern Water Supply Project** and is soon to make a decision on whether to proceed with detailed planning for a **\$4.5 billion desalination plant** at south of Whyalla, that will service the hydrogen industry as well as mining operations in the North of the state.

We again implore the Federal Government to intervene in this matter to stop a reduction in service level in Whyalla, which is a vital region for Australia's vision of a clean green future. While we have previously asked for a further extension of the previous RASI funding stream, Council is happy to explore **any options** that allow us to maintain flights from both QANTAS and Rex.

Council have worked hard with our screening provider to reduce the cost structure, to a point where it is now in line with similar airports. The high cost per passenger is caused by our relatively low passenger numbers and the spread of the flight schedule. Overall costs are not materially impacted whether all passengers or only QANTAS passengers are screened.

I seek an urgent in person meeting with you to discuss this matter and will ask my executive assistant Lisette Symons (lisette.symons@whyalla.sa.gov.au or M: 0419 581 840) to contact your office for the first available opportunity to discuss this matter with you further.

Yours faithfully



Phill Stone
MAYOR

c.c. Hon Clare O'Neil MP – Minister for Home Affairs

Hon Ed Husack – Minister Science and Industry

Rowan Ramsey MP – Federal Member for Grey

Peter Malinauskas, Premier of South Australia

Tom Koutsantonis - Minister for Transport and Infrastructure, Mines and Energy

Eddie Hughes MP – Member for Giles

Geoff Brock MP – Minister for Local Government

Jim Betts - Secretary of the Department of Infrastructure, Transport, Regional Development and Communications

Michael Pezzullo AO - Secretary of the Department of Home Affairs





The Hon Catherine King MP

Minister for Infrastructure, Transport, Regional Development and Local Government
Member for Ballarat

Ref: MC23-059945

Cr Phill Stone
Mayor
Whyalla City Council
PO Box 126
WHYALLA SA 5600

Annexure "B"

Mr Justin Commons
Chief Executive Officer
Whyalla City Council
PO Box 126
WHYALLA SA 5600

WHYALLA CITY COUNCIL INCOMING
I L 87423
FILE: 3-308
26 APR 2023
ATT: CEO Mayor
CC: EC CEO Mayor
INIT:

via: council@whyalla.sa.gov.au

PH11
Justin

Dear Mayor Stone and Mr Commons,

Thank you for your letters of 10 March and 11 April 2023 providing an update on security screening services at Whyalla Airport.

I recognise that, as the manager of the airport, Whyalla City Council will need to make difficult decisions regarding user charging, balancing the broader management of commercial relationships supporting air services for Whyalla.

As has been noted in previous correspondence, it remains the long-standing position of successive governments that industry is responsible for meeting security screening costs, and that these costs have traditionally been borne by airports. With funding through the Regional Airport Screening Infrastructure soon to be expended, funding for airports across Australia will return to more usual levels.

Whether those costs are passed on to passengers, and what form that may take, is a commercial matter between airport operators and airlines.

When it comes to the airport security screening framework and its operation, including the changing classifications of regional airports, any future changes would be a matter for the Minister for Home Affairs, the Hon Clare O'Neil MP. Minister O'Neil has recently released a discussion paper on aviation security matters seeking aviation and maritime stakeholder views on a strategic reform agenda and new regulatory model. Further information is available at: www.cisc.gov.au/legislative-information-and-reforms/aviation-and-maritime-transport-security/reviews-and-inquiries.

You may also be interested to know that some state governments, including Queensland and Western Australia, subsidise intra-state flights for residents. That may be a matter you wish to raise with the relevant state ministers.

Thank you for taking the time to write to me on this matter.

Yours sincerely

A handwritten signature in blue ink, consisting of a large, stylized 'C' followed by a series of loops and a long horizontal stroke.

Catherine King MP

14 / 4 / 2023

19.1.2 *Whyalla Airport Passenger Screening – Update*

Moved Cr Inglis, seconded Cr Pond

C4742-2023

Council:

Pursuant to Section 90(2) and (3)(b) of the Local Government Act 1999, the Council orders that the public be excluded from the meeting with the exception of Justin Commons; Chief Executive Officer, Kathy Jarrett; Director Corporate, Kristen Clark, Director City Infrastructure, Jade Ballantine; Director City Growth, Grant Jennings; Manager Finance, Irene Adair; Manager Governance, Jodie Perone; Manager City Development, Gail Rostig; Manager City Activation, Lisette Symons; Executive Co-Ordinator – Corporate and Naomi Jarvis; Executive Co-Ordinator – City Infrastructure for Agenda Item 19.1.2 – Whyalla Airport Passenger Screening – Update.

The Council considers that the requirement for the meeting to be conducted in a place open to the public has been outweighed in circumstances where the Council will receive and consider a report containing commercial information of a confidential nature the disclosure of which could reasonably be expected to prejudice the commercial position of the Council.

Carried

Moved Cr Borda, seconded Cr Simpson

C4743-2023

Council:

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Carried unanimously