1 General outline

1.1 Overview of the Regulations

Recognition of the increased threat of unlawful interference to critical aviation infrastructure since the September 11 terrorist attacks has prompted the improvements to Australia's aviation security regulations. Since September 2001 the Australian Government has significantly strengthened aviation security with measures including:

- enhanced passenger and baggage screening;
- tighter airport access control;
- hardened cockpit doors;
- wider implementation of security programs;
- broader requirement for aviation security identification cards;
- expanded explosive detection capability;
- stricter security arrangements for international and domestic cargo;
- arrangements for screening checked baggage at certain airports; and
- upgraded counter-terrorism first response capability.

To consolidate and streamline Australia's new aviation security arrangements the *Aviation Transport Security Act 2004* ("the Act") was developed and given Parliamentary approval (and Royal Assent) in March 2004. The Act provides the framework for the new aviation security regime, the *Aviation Transport Security Regulations 2005* ("the Regulations"). The Regulations incorporate the new aviation measures listed above and are effective from 10 March 2005[1].

The Regulations comprise nine divisions:

Part 1 - covers preliminaries and definitions.

Part 2 - covers the transport security programs (TSPs) that aviation industry participants (airports, aircraft operators, regulated air cargo agents (RACA), certain airport tenants and Airservices Australia) must have. These programs are to set out how security for the operations will be managed.

Part 3 - covers airport areas and zones. It also covers requirements for the supervision of embarkation and disembarkation of aircraft, facilitation of

[1] Though some of the new security practices are the result of Government directives or stem from existing regulations.

passenger check-in and baggage handling, controlling access to airside, the requirement to display Aviation Security Identification Cards (ASICs) or Visitor Identification Cards (VICs), airport signage, security restricted areas, landside security and (at the 11 airports) counter-terrorist first response.

Part 4 - covers security measures - screening and clearing of people, baggage and cargo in different areas, weapons and other prohibited items, onboard security, and dealing with persons in custody.

Part 5 - covers the powers of officials - security guards, screening officers, law enforcement officers and aviation security inspectors.

Part 6 - deals with security identification; in particular, ASICs and VICs.

Part 7 - covers enforcement - infringement notices and payment of penalties. Failure to comply with many of the regulations under all Parts attracts financial penalties. These penalties equate to financial penalties as defined by s. 4AA of the Crimes Act 1914.

Part 8 - covers AAT reviewable decisions – including many of the Department's decisions authorised in the Act as Regulations.

Part 9 - has miscellaneous provisions.

1.2 The requirement for a Regulation Impact Statement

This Regulation Impact Statement (RIS) assesses the Government's proposed aviation security Regulations.

A RIS is a well-established practice for assessing the likely impact of proposed policy and regulation on affected stakeholders, aligned sectors, the economy and broader community. The RIS must comply with the Australian Government's RIS requirements, *A Guide to Regulation* (the 'Guide') as produced by the Commonwealth Office of Regulation Review (ORR),

The Guide is designed to assist officials working on the development, review and/or reform of regulation. Government regulators in all Australian Government departments, agencies, statutory authorities and boards are required to use RISs. The Guide sets down the major elements of a RIS - including analysis of the costs, benefits and impacts of regulatory proposals, identification of alternative approaches and consultation - all of which underpin sound policy formulation.

The ORR's Guide requires that a RIS address the following matters:

- a statement of the **problem** or **issue identification** the proposed regulatory action seeks to address;
- the **specified objective** in terms of outcomes and goals that the regulatory action seeks to achieve;
- a statement of the **proposed action** and its **alternatives**;
- an **impact assessment** of the **costs** and **benefits** of proposed actions, including direct and indirect economic social costs and benefits;
- an outline of the **consultation** that has taken place with those affected by the regulatory action;
- an evaluation of the proposed action and any alternatives to **recommend** a preferred option[2]**,** including relevant **conclusions**; and
- **implementation** and **review procedures** that will be established to ensure ongoing monitoring of the operation and appropriateness of the proposed regulatory action.

This RIS follows the Guide recommended by ORR.

[2] This conclusion should outline the proposed action that will achieve the policy objectives at least cost to business and the community (i.e. greatest net public benefit).

2 Problems

Following the September 11 tragedy in the United States, in which terrorists hijacked aircraft and crashed them into buildings with major loss of life and damage to property, many countries including Australia decided that they needed to tighten their aviation security. The Australian decision is embodied in the Act. The Regulations have been drafted because, as discussed below, voluntary or market forces alone are unlikely to suffice.

Good regulations help achieve community objectives without imposing unnecessary costs on business or the community. In the case of aviation security, the Regulations should help prevent unlawful interference to aircraft without imposing unnecessarily costs on the industry, and ultimately, on users of air transport services[3] or taxpayers.

2.1 Background

The Australian economy and society in general relies heavily on commercial aviation for business and leisure travel and air freight because of the country's size and its distance from other countries. It needs a sufficient level of air services with an appropriate level of safety. There are tradeoffs – for example, extreme security measures could price aviation out of parts of the market or deter passengers through inconvenience. Nevertheless Australia's air transport security system needs to be robust enough to protect its critical components and maintain customer confidence.

Maintaining a secure operating environment to transfer passengers, freight and crew safely has been the focus of aviation security since the Chicago Convention in 1944. Aviation security is founded on the prevention of unlawful interference with aircraft including sabotage (eg shooting a plane down or placing a bomb on board) and hijack (to a particular destination, or in order to commit a terrorist act). Deterrence, detection and prevention have been the primary basis for reducing these risks.

There has been increased awareness of the risks of acts of terrorism since the events of 11 September 2001 in the United States. The world's aviation sector has had to demonstrate that it has responded to the increased threat of unlawful interference. Together with governments, the aviation sector has reviewed its security procedures and controls to improve their effectiveness.

---

[3] Regulations that also require Government involvement are likely to impose costs on taxpayers.

In 2003, the *Air Navigation Act 1920* (ANA) was amended by the insertion of new Parts 3 and 3A. These, together with regulations made under the Air Navigation Act, the *Aviation Navigation Regulations 1947* (ANR), laid out the Government's air transport security arrangements as envisaged at the time and were accompanied by a RIS. The Air Navigation Act, Parts 3 and 3A, are repealed by the new Act and the provisions in the ANR made under those Parts are likewise repealed.

International aviation matters are coordinated by the International Civil Aviation Organisation (ICAO) through the Convention on International Civil Aviation. Australia was a founding member when the Chicago Convention first formally convened on 7 December 1944. As a signatory to the Chicago Convention, one of the purposes of the legislation package is to meet Australia's obligations under the Convention.

There are several problems with Australia's existing aviation security arrangements:

- the increased terrorist threat, and knowledge of the way the September 11 terrorists got onto planes, showed a need to tighten security throughout the aviation sector, especially at Australia's busiest airports;
- the 2002 Cornall Inquiry[4] into counter-terrorism arrangements in Australia found there was a need to review the passenger and baggage screening arrangements at Australian airports. It also recommended that more stringent background checks be performed before granting staff members access to secure areas of airports;
- the review of aviation security by the Secretaries' Committee on National Security indicated a need for a broader scope to aviation security regulatory arrangements;
- the overlapping nature of Australia's aviation legislation. The difficulty of administrating the complex set of laws was highlighted in the Australian National Audit Office's audit of aviation security in Australia[5]. The audit found the quality of setting, monitoring and reviewing performance targets suffered as a result of insufficient levels of interaction between the decentralised industry and the regulator; weaknesses in the 'chain of authority' to undermine regulatory compliance and enforcement; and
- The ICAO has responded to the September 11 terrorist attacks by further amendments to Annex 17 of the Chicago Convention. These Regulations will ensure that Australia will meet its obligations under the Chicago Convention and its Annexes.

---

[4] Cornall Inquiry into Counter-Terrorism Arrangements in Australia (see Attorney General's Media Release, 18 December 2001).

[5] *Aviation Security in Australia*, Australian National Audit Office 2003

The Government's rationale was broadly supported by the industry participants[6] together with the view that the existing regulations had been in place for many years and were due for review in any case (Section 6 covers the consultations).

The Regulations, as a whole, provide a consolidation and updating of past regulations and, in many respects, go beyond them. As such, the Regulations are best considered as a whole. Therefore, this RIS will cover all the Regulations but focus primarily on the provision being implemented for the first time. Although consistent with the Act, the Regulations make the impacts more apparent; so this RIS will cover some of the same ground as the RIS for the Bill[7].

2.2 Market failure

Notwithstanding the physical characteristics of the aviation sector which make flying regular commercial jet services inherently susceptible to unlawful interference, there are also underlying economic factors which cause an aviation security system to deliver inadequate security standards if unregulated. The presence of these economic fundamentals, known as market failures, may create an environment where the optimal level of aviation security is not obtained. Market failure is relevant to aviation security for the following reasons:

- there are externalities in that some of the beneficiaries of sound aviation security are outside the sector - e.g. residents and places of business who are not harmed by aviation based criminal activity or terrorism, owners of assets which are not damaged by aviation based criminal activity or terrorism;
- although the direct beneficiaries of improved aviation security are passengers, airline owners etc, there are public good (non rivalry) aspects in that one citizen's benefit from reduced aviation based criminal activity or terrorism does not affect another's benefit from it; information is imperfect - as discussed later it is hard to assess the benefits of security measures. Individual passengers are not well placed to determine the soundness or otherwise of a particular airport's or airline's security arrangements; and
- a feature of aviation is its network structure. Security at one airport can affect security at another, and security at one airline can affect airports and other airlines. These are network externalities. Any one participant may face an incentive to under-invest in security because some of the

[6] This is confirmed by a review of the Government's consultation undertaken by ACIL Tasman.

[7] That is, the Bill which enacted the Act (referred to below as "the Bill").

benefits accrue to others. If others think likewise, investment in aviation security would be lower than society prefers.[8]

Without an appropriate regulatory framework the possibility of market failure in the aviation security system exists. As recent history has shown, the consequences of inadequate security can be large and catastrophic. Therefore, regulations designed to overcome the market failure are required to prevent the market from determining the optimal level of aviation security, instead enabling democratically elected policy makers to help establish the optimal allocation of resources for aviation security.

[8] In economic terminology, spending on security does not cover the marginal private plus social (external) benefit, and this becomes participants "dominant" strategy. For further discussion see *Aviation Security and Terrorism: A Review of the Economic Issues*, CC Coughlin, JP Cohen and SR Khan, Federal Reserve Bank of St Louis 2002.

3 Objectives

The Australian Government's decision to update the regulatory framework for aviation security was designed to strengthen, expand and consolidate Australia's aviation security measures in response to the increased security threat.

The objectives outlined in Part 1 of the Act (which stipulate the objectives of this regulatory regime) are designed to counteract the problems identified above:

- to ensure a consolidated, consistent, modern, and transparent framework for aviation security;
- to implement the recommendations of policy reviews relating to Australia's counter-terrorism arrangements, as demanded by the Government;
- to ensure that Australia's international aviation responsibilities are met in accordance with the standards framed by the Chicago Convention on International Civil Aviation ; and
- to maintain Australia's status as a secure provider of aviation transport infrastructure, thus avoiding the social and economic costs potentially associated with implementing inappropriate security measures for Australia's civil aviation operations.

3.1 New security requirements

Besides consolidating and updating the existing regulations and clarifying responsibilities, the Regulations extend coverage to a wide range of aviation services and airports.

The main consolidation is that for the checked baggage screening requirements from the ANR (Checked Baggage Screening). The Regulations extend and tighten the requirement for identity cards and associated background checks, and introduce the concept of joint security programs at airports. Much of the substance of the Regulations is similar to the existing regulations under the ANA (although updated).

The main new areas which implement the Government's decision to expand the aviation security regulatory regime are:

- extending the coverage of the regulatory package to a wider range of aircraft through the concept of *prescribed air services:* a regular public

transport service, a jet service, or an air service with a maximum takeoff weight above 5700 kg;

- replacing the existing categorisation of airports with the concept of a *security controlled airport* - as gazetted by the Secretary under s.28 of the Act. This will initially result in around 180 airports being so designated. They will generally be airports servicing regular public transport aircraft, airports in and around metropolitan areas (where appropriate given consideration of the risk), and airports in close proximity to Australia's major airports;
- the introduction of Transport Security Programs (TSPs) which replace and extend the requirements of the current Aviation Security Programs required under the ANA and significantly expand the number of aviation participants required to have a TSP;
- wider application of aviation security identification cards (ASICs) to cover people accessing secure areas of security controlled airports and expanded arrangements for ensuring the integrity of the administrative arrangements associated with the issue of these cards. To assist aviation industry participants in the extension or introduction of these arrangements a transition period has been included;
- establishment of airside and landside security zones (existing legislation requires categorised airports to establish a sterile area for screening purposes and a Security Restricted Area (SRA) for ASIC purposes)
- provision for joint transport security programs between airports and airside facility operators such as some hangar operations and flying schools;
- clarification of the procedures for the movement of persons in custody;
- weapons and prohibited items: alignment with ICAO provisions. Clearer provisions for use of "tools of trade" in secure areas – and for firearms used for controlling wildlife, and by private security contractors escorting armoured vehicles airside;
- by virtue of a Government directives on 8 July[9] and 4 December 2003[10], hardened cockpit doors for aircraft providing prescribed air services with more than 30 seats[11];
- introduction of the concept of a *screened air service* on which passengers and their carry-on baggage must be screened into a sterile area before boarding;

---

[9] The directive applied to airlines operating aircraft with 60 seats or more to install hardened cockpit doors in line with ICAO requirements.

[10] The directive applied to airlines operating regular passenger and charter aircraft with 30-59 seats to install hardened cockpit doors.

[11] The Government has proposed to pay for hardened cockpit doors on aircraft with 30-59 seats onboard, whereas industry are required to pay for hardened cockpit doors on aircraft with more than 60 seats onboard.

- extension of the domestic checked baggage screening requirement to require from 1 August 2007 100 per cent domestic checked baggage screening at the 11 nominated airports which have been screening all international checked baggage and some domestic checked baggage under the existing regulations (this part of the Regulations reflects an ICAO directive). The new Regulations include provisions to avoid duplicate screening for baggage transfers between international or international to or from domestic services where the aircraft operator can satisfy certain requirements; and
- requirement for the Regulated Air Cargo Agents Scheme which operates under existing legislation for international air cargo to be extended to domestic air cargo.

3.2 Different airports

Section 28 of the Act allows the Secretary of the Department to designate by *Gazette* notice those Australian airports which are to be "security controlled airports". That is, the Regulations will apply to them by force of the Gazettal.

The Government intends that around 180 airports will initially be Gazetted. This represents an increase of over 140, from the 38 currently regulated for security purposes under the ANA, Parts 3 and 3A.

Also, under the old provisions, 11 major airports out of the 38 have been required to achieve enhanced levels of security. The new Regulations maintain this requirement for those same 11 airports, although the detail of what is required has been revised to enhance security further.

The following factors have influenced the level of security arrangements required of airports:

- size and number of operating aircraft (including whether jet or propeller aircraft); and
- proximity to populated areas or significant infrastructure (including national security facilities).

Bearing these principles in mind, the Regulations thus provide for:

- around 180 airports to initially be designated by Gazettal under s.28 as security controlled airports. Of these

- 11 airports[12] must continue the existing arrangements of having:
  - security barriers (Reg 2.23);
  - checked baggage screening (Subdivision 4.1.2); and
  - a "counter-terrorist first response function" (Reg 3.27); and
- three of these 11 airports[13] are also required to have dogs to detect explosives (Reg 3.31).

Regulations which recognise different risk profiles of industry participants enable similar or increased benefits (in terms of security standards) to be achieved using different combinations of a suite of different security procedures. These categories reflect the Government's judgment about relative risk, having regard to the range of airport sizes, airport passenger and cargo volumes, and locations.

[12] Adelaide, Alice Springs, Brisbane, Cairns, Canberra, Coolangatta, Darwin, Hobart, Melbourne, Perth, Sydney. Under Reg 4.01, each of these, except for Alice Springs and Hobart, are required to observe an "operational period" of 2 hours before an aircraft's departure; for the other two, the period is 30 minutes.

[13] Brisbane, Melbourne, Sydney.

4 Proposed options

Potentially, there are several methods to address Australia's aviation security objectives. This section defines the main alternatives for regulating aviation security. Two of them, self regulation and do nothing, were effectively ruled out at the time the Act was passed. Another, industry code or co-regulation, is included because it overlaps with the way the Regulations were prepared (through extensive consultation). Security procedural options other than the security measures incorporated in the Final Draft of the Regulations were canvassed during the Department's consultation process with industry participants. As the Regulations significantly reflect the views and preferred options for security procedures, it is not considered appropriate to divulge the specific details for not implementing the less-preferred procedural alternatives[14].

Whether the Government, airports or airlines should have responsibility for different procedural security measures is discussed below. Despite exploring the issue of who should assume certain security responsibilities, it still appears prudent to explore whether joint Government/industry regulatory arrangements may provide greater net benefits than Government regulation.

As such, this section explores some the main regulatory alternatives for aviation security.

4.1 Co-regulation

Co-regulation refers to a form of partial self regulation backed (and required) by the government. The usual method for this is an industry code such as Australia's Gas Code. Through agreement with the Government, matters are dealt with in the code as a substitute for statutory intervention or as part of a scheme that reduces the role of legislation. Government has a limited role. It may press the industry to develop the code, with the implied threat of legislating if it fails, but usually keeps out of the detail – as is happening now with the railway codes of conduct which are being developed by the industry. If successful, co-regulation will fully reflect the needs of the industry, the industry will feel it has "ownership" of it, and industry leaders will be inclined to self-enforce it.

[14] In order to maintain the security and integrity of the aviation security system.

4.2 Government regulation

Governments both in Australia and abroad have traditionally played significant roles in the regulation of aviation security. Legislative and regulatory frameworks generally establish minimum industry security standards to which industry participants must comply. The Government is responsible for enforcement of the regulations.

As the ORR Guide suggests, in principle government regulation is the least-preferred option. If not carefully designed, it may impose avoidable costs and distortions. It should be used only where there is market failure - eg "public goods" with free rider problems, external costs or benefits not captured by the direct participants, or information asymmetries. Indeed, ORR's RIS requirements are in part a method of countering any tendency towards badly designed or excessively costly regulation.

In this case a balance has been struck between measures that lend themselves to an outcome approach, being the requirements for TSPs (section 2) and measures that are more efficiently dealt with prescriptively (sections 3-7). A number of the measures were changed in the light of consultation with the industry, and further changes will be considered in the light of experience.

4.3 Government regulation and provision

Another method for regulating aviation security would be for the Government to establish the regulations and administer the security procedures itself. This would see public sector employees replace airport and airline employees in functional roles such as baggage, passenger and cargo screening, and patrolling security perimeters. The Government would also have internal responsibility for its staff's compliance with and enforcement of the security regulations.

4.4 Status quo

The status quo would be a continuation of the existing regulations without the changes of the proposed Regulations.

5 Options impact analysis

5.1 Co-regulation

The approach being taken by the Government to aviation security in Australia has elements of co-regulation in that the industry has been widely consulted. The industry participants consulted in the course of preparation of this RIS generally considered the consultation to have been thorough and that many of their concerns had been addressed. In other words, the proposed Regulations are a product of significant industry involvement and thus the regime is a hybrid between co-regulation and government regulation.

Impact on industry

An industry code or co-regulation would require industry participants to collectively contribute more resources than they would otherwise in assisting the development and enforcement of security regulations.

As mentioned above, the ability of larger industry participants to coerce smaller participants into sub-optimal arrangements via a misuse of market power is an undesirable outcome co-regulation may also provide.

Impact on government

If the Government was to assume a smaller regulatory role under an industry code or co-regulation, the Government and therefore taxpayers would incur less of the funding burden of aviation security regulation.

Conclusion

The arguments against self regulation (i.e. ensuring full compliance, the free rider problem and potential dominance of large market participants at the expense of smaller participants) generally apply to co-regulation although with less force as there is a degree of government influence.

There would be the possibility of confusion and doubling up of Government and industry's regulatory roles. Clear and precise guidelines to limit the duplication of compliance roles would be essential in minimising potential costs. Unnecessary transaction costs would also be likely under a co-regulation environment that would be avoided if the industry self-regulated or the Government took sole responsibility for aviation regulation.

It is concluded that, although there are problems with pure co-regulation, the hybrid approach is viable.

5.2 Government regulation

Costs

This section develops a ballpark or order-of-magnitude sense of the costs caused by the Regulations, drawing from the range of cost information available from within the Department and from interviews with participants. There is insufficient information to produce a precise estimate, but enough to help form a judgement of how costs compare with benefits. The numbers below are the judgements made by its advisors ACIL Tasman. The costs relevant to this RIS are the extra costs caused by the new Regulations, compared with a situation where the Regulations were not introduced - that is, compared with the status quo including the current regulations under Air Navigation Act, combined with judgements about what participants would have done in the absence of the Regulations.

Base Costs

The current cost of aviation security, without allowing for the Regulations, is initially borne largely by the airlines and airports, and to a lesser extent by Air Services and other participants.

Qantas states publicly (e.g. in its January in-flight magazine) that its annual expenditure on aviation security is $200 million. This covers the whole group including QantasLink, Jetstar etc. Qantas has approximately one third of Australia's international passenger aviation market and approximately two thirds of the domestic passenger aviation market. A total cost for the sector cannot be simply extrapolated from these numbers because the other international airlines can be presumed to incur a higher proportion of their security costs abroad, and some of the other domestic airlines are "low-cost" or of a different scale (small local airlines etc). For the purposes of this RIS a total annual cost of airline security is assumed to be of the order of $300 million per annum.

It is estimated that Australia's airports, Air Services Australia and cargo freighters may spend another $150-200 million per annum on security measures[15]. Smaller amounts are spent by Air Services, Police etc.

[15] Range calculated from evidence from airport annual reports and an Australian Parliament House Committee Paper; Meeting the costs of security enhancements – Aviation Security in Australia.

In total, the aviation sector in Australia is judged to be spending in the order of $400-500 million on security per annum.

The following sections discuss the additional costs caused by the Regulations.

Aviation Security Officers

The Department will be engaging 80 security inspectors to monitor compliance with the Regulations. The inspectors are not a direct consequence of the Regulations - the Government made a separate decision to engage them. Their presence relates to aviation security broadly defined, and the bulk of the regulations they will be enforcing were in existence prior to the new Regulations (i.e. the new Regulations go beyond the existing ones only in certain areas). The annual cost including salaries and overheads is approximately $10 million. They will also have other duties, notably in the maritime sector. Approximately 63 per cent of their time will be dedicated to aviation and hence the annual cost attributable to aviation is $6.3m. There is no basis for precisely determining the portion of this cost that should be attributed to the Regulations (and in particular those parts of the Regulations which go substantively beyond current practice), as opposed to aviation security as a whole. If, for example, the portion was taken as 33%, the annual cost caused by the Regulations would be $2 million.

This cost may not continue indefinitely -- for example it could decline if it was later decided to reduce the number once the key participants had fully adapted to the new upgraded security regime.

Hardened cockpit doors

Although included in the Regulations, hardened cockpit doors are a result of earlier Government directives (for aircraft between 30-59 seats) and ICAO's updated Annex 6 (to the Chicago Convention), *Operation of Aircraft*, for aircraft in excess of 60 seats. Therefore, no cost can be directly attributed to the Regulations[16].

[16] Airlines have incurred substantial costs for installing secure cockpit doors. The Government has proposed to pay $4.7 million[16] for hardened cockpit doors on aircraft with 30-59 seats on board. . The industry is required to pay for hardened cockpit doors on aircraft with more than 60 seats on board at a total cost of estimated at over $10m. Thus the total cost is of the order of $15 million.

Checked baggage screening

Airlines and airports have also incurred significant installation costs of checked baggage screening[17], but much of this falls outside this RIS as it the consequence of policies announced earlier.[18] Although the Regulations state that the11 airports listed in section 4.29 of the Regulations will have to screen 100 per cent of domestic baggage by 1 August 2007, this would in any case be an ICAO requirement. The Regulations also extend checked baggage screening to Hobart and Alice Springs for the first time on 1 August 2007.

The set-up costs at Hobart and Alice Springs are expected to be of the order of $3 million each. The costs per passenger will be significant because of the relatively low throughput, eg $6.50 at Darwin compared with a national average of $1.20. Moving from partial to 100 per cent checking of baggage at the other airports will also increase costs substantially, but unavoidably if ICAO requirements are to be observed.

The increase in annual operating costs attributable to the Regulations is a combination of the operating costs at Hobart and Alice Springs. It could also be argued that they should include a portion of the substantial costs at other airports moving from partial screening to 100% screening, depending on the view about whether the causal link is seen as to the Regulations or to ICAO. Estimates broken down this way are not available, and $10 million per annum has been assumed for this RIS.

Training costs

Upfront training costs will be significant, especially for airlines as they have to take flight and cabin crews off duty for a day or two. From interviews with a regional and a national airline, the first-year costs are estimated to be in the order of $5 million. The costs of subsequent refresher and new-recruit courses should not be attributed to the Regulations as similar courses would have been necessary anyway.

Training costs for airport and Air Services staff will be similar – more people are involved but training can be conducted on-site, without removing staff from daily flying rosters. Based on an assumed nominal training cost of $100 per head to cover trainers, materials etc and 50,000 staff to be

---

[17] Anecdotally, it is estimated that the total cost of checked baggage screening facilities at the 11 airports is $180 million and approximately $3 million for an airline at a major airport.

[18] These security measures have been in operation at Adelaide, Brisbane, Cairns, Canberra, Coolangatta, Darwin, Melbourne, Perth and Sydney airports since 1 January 2005.

trained, the upfront training cost associated with the Regulations is estimated to be of the order of $5 million.

Again, subsequent refresher and other courses should not be attributed to the Regulations.

The government's Training Under Regional Skies program, under which $6.5 million will be spent over four years to improve aviation security training in regional Australia, is related to the Regulations but is also related to aviation security more generally. A portion, say one third, could be attributed to the Regulations for the purposes of this RIS – i.e. approximately $0.5 million pa.

The cost for Airservices will be approximately $150,000 covering setup, downtime and training.

TSP preparation

Aviation participants will incur a one-off cost for preparing TSPs. It is relatively small given that where applicable much of the material can be adapted from existing ASPs. There are exceptions, however, as larger airlines have to consult with all airports they operate from and other industry participants they interact with before final lodgement of their TSPs. Developing a TSP is likely to be a relatively resource intensive exercise for smaller metropolitan and regional, airlines and airports, but the dollar amount is low compared with other cost items.

Government capital expenditure

The Government's Regional Airports Funding Program (RAFP) provides $35 million to be spent on basic security infrastructure (eg lighting, fencing, alarm systems) at regional airports. Larger airports (and, indirectly, their customers) fund their infrastructure, but most of it was in place prior to the Regulations.

Signs

New signage will be needed at all airports, to replicate the prescribed wording and include the new penalty clause[19]. The cost for the whole country is estimated to be of the order of $2 million The Government will

[19] However the Regulations do provide for transitional arrangements for airports that already have airside, SRA & sterile area signs under the Air Navigation Act until 2007.

be providing around 15,000 signs for airside perimeter and entrance areas at a cost of around $106,000 for newly regulated airports.

ASICs

New ASICs will be needed for all relevant employees at a cost of $160 per card - this includes the cost of the card and the background checks but not the cost of administration (though many will already have had such checks under the previous regime).

There are about 60,000 current ASIC holders and the expectation is that about another 60,000 will be required to have ASICs under the new regime. The total cost for ASICs would thus be over $15 million (allowing for savings from no longer having to provide the current cards for new recruits, replacements etc).

Airservices estimates its costs at over $300,000 for ASIC background checks, production and distribution.

Costs in subsequent years for replacement of worn or lost cards, cards and background checks for new recruits, and updates of background checks for existing staff, would have occurred anyway under the current regime.

Consolidated range

From this partial information it can be surmised that the additional cost of the Regulations is of the order of $70 million upfront and of the order of $10 - $15 million per year thereafter. (Additional amounts could be allowed for meeting the ICAO requirement for100% screening of domestic checked bags).

The biggest upfront items are the upgrading of regional airport infrastructure ($35 million), ASICs ($15+ million) and checked bag screening equipment ($6 million at two airports). Of the upfront costs, the Government and the industry are funding approximately equal portions.

Most of the ongoing costs would have occurred irrespective of the Regulations. A portion of the annual costs of the Department's inspectors should be attributed to the Regulations, plus the operating costs of checked bag screening at two airports. The total annual cost is of the order of $7 million.

It is again stressed that these are ballpark numbers, not precise estimates. Many of the industry participants were unable to accurately forecast the costs imposed on them by the Regulations, so the numbers here are based on partial information and extrapolation. A major research exercise would be

able to provide some refinement, but would not change the relative orders of magnitude.

It may be concluded that the additional costs are relatively small – an upfront cost equivalent to about 10% of the existing annual costs, and future additional annual costs equivalent to 2-3% of existing annual costs. These numbers would be somewhat higher if ICAO requirements for domestic checked back screening were also included.

As a consequence of heightened awareness of security standards and measures since September 11, the aviation industry, had it been left to its own devices, may have introduced some of the measures included in the Regulations, or similar equivalent measures, for cost, reputation and customer confidence reasons. This view is supported by the extensive consultation undertaking when preparing the Regulations, so that to a large degree the Regulations reflect what many in the industry are comfortable with. The extent to which the industry would have mirrored the Regulations' security measures, while not known, provides a basis for considering the above numbers to be at the upper end of a range.

Benefits

There are several types of benefit from improved aviation security:

- reduced likelihood of loss of life (to passengers and to others) from criminal and terrorist incidents;
- reduced likelihood of loss of property;
- reduced risk to key infrastructure and defence installations; and
- an improvement in general wellbeing from the perception that aviation is more secure than it would be otherwise, felt both by passengers and the population in general - a "public value" or "existence good".

The first and last of these have heightened values because of the weight many place on aviation safety (higher than in some other sectors) perhaps because incidents can be major and dramatic. In particular, September 11 was a case where, besides the tragic impact on those directly involved, there was a widespread negative impact on many in the population at large.

One estimate puts the direct cost of the September 11 terrorist attacks at $US240 billion[20]. If quantifiable, the indirect economic cost of substantial capital market depreciation and the widespread downturn in tourism would have magnified the direct costs considerably. Thus, a small reduction in the

[20] Institute for the Analysis of Global Security, *How much did the September 11 terrorist attack cost America?*, 2003-2004.

probability of unlawful interference to crucial aviation infrastructure (i.e. a commercial jet aircraft) is likely to provide large benefits.

Maintaining the travelling public's confidence in the security of Australia's aviation sector will help achieve increasing passenger volumes. Expanding passenger volumes will benefit airports as many of their costs are fixed and they collect much of their revenue on a per passenger basis (through terminal charges).

There are also benefits to airlines and the tourist sector. If confidence is reduced, business passengers would be more likely to use teleconferencing facilities and leisure passengers would be likely to stay at home or drive.

There do not appear to be any quantitative estimates available of the benefits of upgraded aviation security. The reason is in the nature of the benefit: as the Regulations will make aviation criminal and terrorist acts more difficult to undertake, it may be surmised that the potential number of deaths and damage to property from such acts will be lower than if nothing was changed. The unmeasurable nature of estimation is due to:

- the unknown size and "success" rate of the potential terrorist acts;
- the unknown extent of the costs of infrastructure damage from an aviation accident;
- the unknown probability of their occurring;
- the unknown difference in this probability caused by introducing the new Regulations;
- the general tightening of security at major airports (where the major risks are), and similar tightening of airline procedures including hardened aircraft cockpit doors, which have happened in any case;
- the difficulty in quantifying the negative impacts on capital markets and related industries such as the tourism sector;
- the unmeasurable nature of general malaise after terrorist events (as observed in the US post September 11); and
- the possibility that tighter aviation security will divert criminal or terrorist attention to activities outside the aviation sector which have lower levels of security.

There is a basic problem of statistical significance. Terrorist or criminal acts in the aviation sector are rare but potentially significant when they occur. There have not been enough of them (especially terrorist acts) to provide a statistical basis for estimating their future frequency.

Thus, although there is a rough estimate of extra costs, there is no qualitative guesstimate available of extra benefits. However, it is observed that the Regulations are in the nature of a 'one-way bet' - either they will

not make much difference to benefits, or they will make a positive difference. The generally accepted range for the value of statistical life in Australia is in the range of $1.5 million to $5 million[21]. Thus it would suffice to save an average of several lives a year to justify the Regulations. This hurdle (cost) would be lower after allowing also for the value of public perception of improved safety (reduced anxiety) and the reduced risk of loss of property.

Preventing unlawful interference also provides indirect benefits. High customer confidence in aviation security improves the welfare of leisure passengers and enables businesses to pursue activities that provide them with the greatest potential profit without fear or anxiety. From a broader perspective, there are economic and social benefits from having relatively safe airlines and from being seen as a relatively safe country.

Improved security standards imply the cost of airline insurance should decrease, as insurers risk-based premiums are inversely correlated to the company risk profiles. If the Regulations reduce the perceived risks aviation participants face, the Regulations should benefit aviation participants by reducing their insurance costs.

Impacts on government

Whatever option is chosen, its impact will be affected by the decision as to who bears the costs. The issue of funding the security improvements to Australia's aviation sector raised mixed views amongst aviation industry participants. Some believe that the Government (tax-payers) should pay, others accept that the industry would pay (and probably pass most on to its customers).

In the United States, the Federal Government via the Transport Security Administration (TSA) has supplied the upfront financing of the US' new aviation security standards and practices[22]. Hence, the costs incurred by airports of upgrading security to satisfy regulatory requirements were reimbursed by the TSA and ultimately by the American taxpayers. Under the Australian and European models of aviation security funding, the industry bears the majority of the costs of aviation security. The Australian Government is bearing most of the extra costs faced by small airports, but otherwise expects the industry to bear the costs.

---

[21] Parish, Ross, *The Valuation of a Human Life*.

[22] Coughlin Cletus C., Cohen, Jeffery P. & Khan, Sarosh R., *Aviation Security and Terrorism*: *A Review of the Economic Issues*, A Review of the Federal Reserve Bank of St. Louis, 2002.

The Government will also bear costs of enforcing industry participants' compliance with the Regulations[23]. It is planning to employ 80 fulltime staff (aviation security officers) to monitor and detect breaches of these and other aviation related regulations[24].

Impact on industry

In this instance, different industry participants will assume the additional security costs of the new Regulations. Several factors determine how the additional costs will be apportioned between industry participants and to what extent the additional costs will be passed on to air transport consumers:

- whether or not airports affected are under prices surveillance programs[25];
- the characteristics of passengers and freight cargo customers flying on each route in terms of their marginal willingness to pay or their price elasticity[26];
- airline operators' choice of airport; and
- the degree of price competition between airlines on each route (both direct and indirect routes) – the degree of substitutability between airports and substitutability between transport modes generally determines the extent of airline cost pass-through to customers[27].

Australian airports are currently free from price regulation (although pricing regulation can be re-declared by the National Competition Council) and most display some monopolistic characteristics. Consequently, they almost certainly have the ability to pass on the additional costs of the Regulations to airlines and other downstream customers. Increasing terminal fees and landing charges is generally the method used by airports to pass on costs to airlines. Once the terminal and landing fees are set by airports, changes to their revenue levels are determined by passenger and plane landing

---

[23] The costs of enforcing compliance with the Regulations stem largely from provisions within the Act not the Regulations.

[24] On average, the 80 Aviation Security Officers will split their time between aviation security (two-thirds) and maritime security (one-third).

[25] Air Services Australia operates under a prices surveillance program and will be unable to increase its revenues to offset the additional costs imposed by the new Regulations until a future price review is undertaken and agreed to by the ACCC.

[26] Price elasticity of demand indicates a percentage change in volume a customer will demand relative to a percentage change in price. Studies show business travellers are less responsive to changes in airfares than leisure travellers.

[27] Substitutability of transport modes generally does not exert the same degree of price restrictions on airlines in Australia as in Europe due to the longer journey distances.

volumes.[28] Therefore, the airports' revenues will be dependent on the degree of price sensitivity of end users and their reaction to price increases (passengers and air freight customers) and the pricing behaviour of airlines.

There is a likelihood of aircraft owners using nearby, unregulated airports if GA or small security controlled airports pass their increased security-related costs on to aircraft owners. If aircraft operators leave security controlled airports in preference to unregulated airports, the effectiveness of the Regulations will be reduced.[29] Moreover, it would distort aircraft landing volumes between security controlled and unregulated airports.

Unlike airports and airlines, Air Services Australia does not have the liberty of altering its prices in response to changing market conditions. Instead, it has to wait until an ACCC price review is approved before being able to adjust its prices in response to increased security costs. However, despite a lag, it is likely that Air Services would pass its costs onto its customers - it generally gains approval from the ACCC under the Trade Practices Act prices surveillance regime.

Airlines could adopt the strategy to absorb the compliance costs imposed on them by the new Regulations and those passed on by the airports *or* increase their fares to passengers and air freight customers.

Having smaller, regional-based airlines bear the costs of higher security standards may reduce aviation traffic to regional and remote areas. The cost per passenger can be significant where passenger numbers are low. Such a result would conflict with Government policies aimed at increasing aviation services to remote areas. However, this is mitigated by the Government (largely) covering small airports' costs.

If the airlines opt to absorb the cost increases, reduce their yields and offer fares at the same level (prior to the cost increases), airport passenger volumes (and therefore revenue) are likely to remain unchanged. In some instances, airlines may have little choice but to absorb the cost increases because of strong horizontal price competition from other airlines (on both direct and indirect routes).[30][31]

---

[28] It is noted that a large proportion of airports' revenues are derived from retail outlet leases and parking fees.

[29] This will be limited by the inconvenience, depending on the extra distance to the closest unregulated airport.

[30] Competing modes are also likely to exert some competitive pressure at the margin in the air freight and non-time sensitive passenger markets.

[31] Despite the financial difficulties faced by US airlines, this situation is likely to have occurred on many of the US' highly competitive domestic routes.

Impact on customers

On the other hand, if passengers have the willingness to pay higher fares and demand air transport services in similar volumes at higher fares (characteristics generally displayed by inelastic passengers such as business travellers), airlines would most likely increase their fares and pass on the costs of the new Regulations to passengers and air freight customers. Low levels of competition on certain routes would also enable airlines to pass on the cost increases to passengers and air freight customers.

In reality, airlines and to a large extent passengers and air freight customers are likely to pay for the additional costs of the new security programs. Anecdotal advice suggests that one industry participant is expecting to have to spend 5-10% more than it would have otherwise (i.e. if the Regulations were not introduced). Therefore, the costs imposed on industry participants appear to be small but significant. However the average impact on fares would be much less, as security accounts for around 2% of airline costs (using Qantas data) and around 20% of larger airport costs, implying low (of the order of 1%) *average* fare increases but with variations on particular cases for the reasons discussed above.

Having the users of air transport pay for security enhancements to the aviation sector is a more efficient outcome (in terms of resource allocation) than having taxpayers fund the costs of the new Regulations.

Conclusion

As noted above, there are strong arguments for avoiding regulation but it may be necessary where there is market failure. However, market failure is relevant to aviation security for the following reasons:

- externalities;
- public good (non rivalry) aspects;
- components of the aviation sector exhibit natural monopoly characteristics; and
- information is imperfect.

For these reasons, and given the weaknesses with self regulation, there is a strong case for government regulation of aviation security. This is implicitly supported by the industry's general willingness to participate in the development of the Regulations and cooperate with the approach now being proposed by the Government. The risk of excessively costly regulations, or of regulations that do not fit the technical realities of the industry (typical risks of regulations imposed by governments who do not

bear their costs) appear to have been mitigated by the co-regulation or consultative element.

Alternative forms of regulation were considered. The proposed mix of outcome-based and prescriptive elements (Parts 2 and 3-7 respectively) represents a broad consensus or an effective combination, once the Department had addressed a number of specific issues identified by participants. However, it is agreed that the Government should be open to modification of the Regulations (or accompanying documents) in light of the experience, should more cost-effective alternatives become apparent.

5.3 Government regulation and provision

Impact on consumers

There is a strong probability of longer queues at screening checkpoints as public sector employees have lower incentives than airport and airline employees to help get planes away on time. Ultimately, the travelling public would be likely to face increased airfares and lower flight frequencies.

Impact on industry

Longer queues at screening points would increase aircraft turnaround times by delaying departure times which ultimately reduces the number of flights per aircraft and increases in airlines' costs per flight.

Government regulation and control is likely to inhibit innovation and efficiency gains compared with those achieved by the private sector which is subject to competitive pressures and pressures from shareholders.

Impact on Government

Re-introducing Government provision would conflict with other Government policies, eg privatisation of airports and its support of remote regional routes through the RAAS (Remote Air Services Subsidy Scheme) scheme.

Regulation and control would also conflict with broad Government policy to remove itself from operational and service provision responsibilities.

The funding requirements of extensive Government involvement and the consequent high costs would largely fall on taxpayers.

Conclusion

Reclaiming control of the administration and undertaking the provision of services to provide Australia's aviation security would contradict the Government's policy of removing itself from active involvement in providing aviation security (and many other business activities). The factors

discussed above indicate that government regulation and control of Australia's aviation security would be sub-optimal. Regulation and control would be likely to increase the costs of security procedures, reduce innovation and increase passenger queues.

Therefore, the likelihood of net public benefits arising from direct Government intervention is low.

5.4 Status quo

Conclusion

As discussed in the RIS for the Bill, the status quo is not viable, given the outdated nature of some of the present regulations and the need for alignment with updated international conventions. This view is supported by general industry willingness to participate in the process of developing the new regulations.

6 Consultation

6.1 Consultation by the Department

The Department engaged economic consultants, ACIL Tasman, to, *inter alia*, review the Government's consultation processes and to assess industry's view of the Regulations. ACIL Tasman has advised that it confirms, both from the Department and industry participants interviewed, that the Department consulted widely with industry during the development of the new Regulations.

A substantial amount of public consultation was conducted to outline the direction the Government was planning to take with the Regulations and to give the participants an opportunity to provide feedback. Industry participants reported their opinion that the level of consultation undertaken was extensive and appropriate. A list of participants consulted is included in this RIS. In addition, there were approximately 80 workshops around Australia to communicate to industry participants their TSP requirements and the schedule of TSP implementation.

Comments and criticisms on the consultation focussed mainly on:

- consultation during preparation of the Bill being inadequate,[32] but very good during the preparation of the Regulations;
- air cargo operators considered consultation regarding airports and airlines was more effective than consultations regarding air cargo;
- difficulties for smaller participants with limited resources to absorb the volume of paper and the detail of the changes[33]; and
- the time available for responding to the Final Draft Regulations was very short[34].

The Department accepts that there was a need for quick action to secure the passage of the Bill. There was a trade-off between the need for timely legislation and the amount of time that could be devoted for consultation.

---

[32] The lack of consultation with industry during the development of the Bill was because of the necessity to expedite its drafting to quickly secure tabling of the Bill in the Parliament.

[33] Although workshops were held to address this in part.

[34] This was due to the need to meet the Parliamentary timetable to enable the Regulations to commence on 10 March 2005 and was felt to be mitigated by the ongoing consultation prior to the Final Draft of the Regulations.

The preparation of these Regulations has allowed for more extensive discussions; the industry's feedback has been useful and has been the basis for improvements to what was initially proposed.

It is also noted that:

- for some measures there will be a transition period (i.e. the 2 year transition period for existing aviation security program operators to fully adopt the TSPs); and
- the Government appears open to future review of the regulations in the light of experience.

6.2 Consultation by ACIL Tasman

The independent review of the Department's consultation process covered small, medium and large airports and airlines, freight agents, and Airservices to get their views on the likely impacts and processes of the Regulations. Most of this review was done before the Final Draft of the Regulations was circulated on 4 January 2005. Therefore, some of the comments were conditional. The list below indicates the participants consulted by ACIL Tasman:

- Qantas;
- Air Services Australia;
- Regional Aviation Association of Australia;
- the Department;
- Regional Express Airlines;
- Sydney Airport Corporation;
- Tamworth Airport;
- Virgin Blue;
- Australian Airports Association;
- FedEx;
- Australia Post; and
- Bankstown Airport

The comments offered by those listed above were largely positive. There was acknowledgement that the task of drafting up aviation security regulations has been challenging. Some of the comments (other than those incorporated in other parts of this RIS) were:

- There are constraints due to policy stances taken by the Australian Government. For instance, a Government decision to ban metal knives on aircraft limited the degree of alignment of Australia's aviation security regulations with those in other jurisdictions;

- some thought that the 18 months to 2 years taken to develop and finalise the Regulations had been too long. Others did not, and noted the complexities and extensive consultations;
- most supported the Department's risk-based approach to developing the Regulations;
- as directed by the Bill, the Regulations' consultation process appeared to be tailored more towards passenger and checked baggage measures than those for cargo (a Cargo Industry Working Group, involving all key stakeholders including major airlines, has been established to develop a position for further measures to the treatment of cargo. It is likely that the position developed may need to be implemented through amendments to the Regulations); and
- initial drafting of the Regulations did not always adequately reflect industry realities. However, several acknowledged that the Government had been open to negotiation and made improvements where possible, for example:
  - modifying the Regulations to allow screened international flights to land at an intermediate point in Australia and not be required to re-screen previously screened baggage;
  - adoption of international definitions for airside and landside;
  - provision for weapons to be removed from aircraft; and
  - avoidance of double signs on common boundaries;

Given the short time frame available for the last consultation some smaller participants indicated their wish to have their views considered later during reviews.

As with regulation elsewhere, larger industry participants, with relatively higher levels of resources, prefer to operate under outcome-driven regulations whereas smaller industry participants, with few resources, prefer to follow more prescriptive regulations. Outcome-driven regulations enable larger companies to develop more cost-effective methods of achieving the same outcome – for example, methods built on their internal systems. Small industry participants, however, prefer prescriptive regulations to limit ambiguity and the resources required to develop security programs, whilst maximising guidance for developing security programs.

Overall, the balance of outcome based provisions and more prescriptive provisions within the Regulations appears appropriate. It should provide industry participants the freedom and flexibility to seek more cost-effective measures whilst providing sufficient procedural security guidance to smaller participants.

7 Conclusions and recommendation

7.1 Conclusion

The Government's view is that:

- the only viable option is government regulation; and
- the benefits stemming from the proposed Regulations appear at least to cover their costs.

It has been shown in Section 5 that there are strong arguments of a qualitative economic policy type for rejecting the options of status quo, government regulation and provision, and co-regulation (although regulation based on a high degree of genuine industry consultation and feedback contains elements of co-regulation).

The conclusion, therefore, is that the only viable option for the aviation security problem, given the element of market failure involved, is that of government regulation.

8 Implementation and review

8.1 Transition

As indicated in Section 5 the Government has endeavoured to maintain ongoing consultation on the direction and content of the regulations with aviation industry participants over the course of their development. Furthermore, to ensure as wide a dissemination as possible the final draft of the regulations was provided to more than 500 aviation industry participants on 4 January 2005. Given they will commence on 10 March 2005, this gave a detailed indication of the content to participants approximately two months before they had to become (largely) compliant (planning, writing new documents, training staff etc)[35].

With a short lead time, it may not be possible for participants to adapt fully to the Regulations (eg training everyone to comply with the Regulations' new security procedures) during the period immediately after 10 March 2005. The Department has recognised the tight timeframe and has included transitional arrangements for several of the Regulations' requirements to allow industry participants the time to satisfactorily complete their preparations.

There will be a transition period for ASICs. This will help reduce costs and encourage voluntary compliance[36]. For bodies operating an old ASIC program under Division 7 of Part 7 of the ANR is taken to continue to be approved beyond 10 March 2005. Old ASIC programs can remain valid (at the latest) until 31 December 2005. Allowing employees with a superseded ASIC (issued under the ANR) to retain the ASIC's valid status until 31 August 2006 offers further flexibility and cost effectiveness.

Existing regulated entities are afforded a two year period to fully transfer their current security programs (under the ANR) to TSP guidelines. Similar arrangements are being made for signage, international cargo TSPs, and Aviation Security Inspector Identity Cards. These provisions will minimise the transition costs for previously regulated industry participants.

---

[35] As material comments were invited on the final draft of the regulations circulated on 4 January 2005 and because of the Parliamentary process, it was not possible for aviation industry participants to be able to treat these regulations as the final version with which they will have to comply

[36] This assumes that Department audit reports will be given to the participant concerned, so that it knows what it must improve.

8.2 Procedures for Quality Control

The Regulations require the procedures for quality control to be contained within TSPs. To maintain high security standards, mechanisms to assess performance indicators in a transparent and unambiguous manner are fundamental. The Regulations set out the quality control procedures, such that each TSP must contain:

- a schedule of audits[37];
- procedures for carrying out an audit, including a process for selecting auditors;
- procedures for reviewing TSPs, including a process for consultation during such a review; and
- a description of the circumstances that will require a review of TSPs, including those surrounding aviation security accidents.

8.3 Review

In drawing the conclusion that the Regulations will provide a net benefit, the importance of measures to limit the costs of the Regulations in the future should be noted. For this reason, the Government is open to suggestions made by participants (that is, by those who pay, or who face potential loss of business when passing costs on to their customers) in the light of experience, for modifications to the Regulations to allow the outcomes to be achieved at lower cost.

The Government has endeavoured to maintain ongoing consultation on the direction and content of the regulations with aviation industry participants over the course of the development of the regulations. Industry participants have an incentive to develop more cost-effective and efficient methods of achieving the objectives, and with experience they are likely to do so. Flexibility will be needed for the Regulations to adapt to changes in technology and more efficient alternatives, so the review process itself needs to be efficient. The Government will continue its existing industry consultative meetings which provide the aviation industry with a regular ongoing forum to raise issues of concern and develop options for their resolution.

---

[37] The records of an audit are to be kept for 7 years and records of a review are to be kept for 3 years.