

## **Operating a Tighter Ship in 2009**

*Hugo Rosemont, Policy Adviser on Security and Resilience to the Society of British Aerospace Companies, argues that the budgetary pressures arising from the severe economic conditions must be taken into account by UK and other Governments to ensure that our aviation security arrangements are fit for purpose. Our society's well-being and our economic resilience are intimately linked to the security of our transport infrastructure; Governments must now work with the private security more closely than ever to protect our transport networks effectively.*

Ladies and Gentlemen, I am very pleased to have this opportunity to speak to you on such important issues. I will outline in this speech how the current economic crisis might impact upon the security of our aviation networks and what steps could be taken by our Governments to ensure that our transport arrangements are fit for purpose. It is essential that we begin to consider in more detail how the current state of the economy might affect our global transport network's security, and how Governments might need to work with the private sector in new ways to deliver effective aviation security in these turbulent times.

It has become something of a cliché to lament the state and potential impact of the severe economic conditions. The UK Government explained in its 2009 budget statement that the current recession signals the “most serious global economic turmoil for over 60 years.”<sup>1</sup> In this context the headlines have been dominated by reports of major industrial and services sectors calling for Government bail-outs to help them through the rough times.

Governments have acted in response but they now seem to be managing expectations around the levels of financial assistance that they are able to provide to industry. They appear to be losing the appetite or the ability to take on more public debt. A serious debate is now taking place in what some are calling “austerity Britain” around where specific cuts in public expenditure could be made. Those working in the Defence and Aerospace Industry are waiting with some trepidation to see if looking ahead, European Governments, in particular, will extend further the recent deterioration in levels of European Defence expenditure.

Against this backdrop I would like to argue that too little attention is being paid to the potential impact that the downturn and any subsequent policy developments may have on our aviation security arrangements.

Two considerations are particularly important. Firstly, what will be the direct impact of this crisis on aviation security expenditure? This includes spending by both public and private bodies. Secondly, what will be the impact in this economic context of emerging security regulations on security levels, business budgets and passenger satisfaction?

It might seem crude for a representative from the Aerospace industry to be speaking so directly about the potential deterioration of security expenditure. But I do so because the members of the SBAC who I am representing here today – and for those less familiar the SBAC is the UK’s National Trade Association for companies supplying to Civil Aviation, Defence, Security and Space markets – have directed me in all my activities to have in mind the aim of reducing to a minimum the damage that the economic downturn may inflict on the key capabilities of the sector in the longer term.

Clearly, there is a need for continued investment in the security industry for the longer term.

You might say that the resources allocated to our aviation security arrangements will remain fairly consistent even within the current economic climate. The current terrorism threat level demands it. Passengers will accept the current levels of security at our airports. Governance structures and regulatory models are in place to ensure that the right resources are allocated and that the integrity of our transport infrastructure is upheld. It is business as usual.

But to conclude this way would be complacent. This is because such a view does not take into account firstly the potential for a rapid change in the nature of the threat that we face and secondly because of the diverse nature of aviation security delivery and the pressures that the economic conditions are likely to place on the various operational “actors”. I will draw upon lessons from the collaborative UK security delivery model to demonstrate what I mean by this.

As an Englishman I might be accused of bias in saying that in many respects the UK’s transport security arrangements are “world class”. The UK’s National Risk Register published in 2008 acknowledged that malicious acts against our transport system are the most likely of all the security threats facing our society. At the same time we have thankfully seen very few successful attacks on UK transport networks in recent years. This is not to be complacent or downplay the impact that tragedies such as the London bombings in 2005 have had. But in protecting our aviation network, the authorities did foil the well-documented liquid bomb plot of 2006. We have not seen a repeat of the coordinated suicide hijackings that took place on September 11 2001.

The intelligence and security agencies play a central role in preventing such attacks but the policy and regulatory model for delivering effective protective security arrangements is also very important. The Government's role as policy lead and regulator of the transport industries, as opposed to taking on responsibility for delivering all operational security itself, is fundamental in this regard. Did you know that the British central Government in the form of the Transport Security and Contingencies Directorate (TRANSEC) in the Department of Transport possessed a budget of around £19 Million on transport security in 2007/08? The Transportation Security Administration (TSA) in the United States possessed a budget amounting to around \$6.3billion in 2007.

So although the UK's transport security regulatory model is considered to be solid it is worth emphasising that the UK Government has a longstanding policy of ensuring that the "costs lie where they fall" with respect to the delivery of security at airports and on board aircraft. This means that the costs of aviation security provision are borne largely by the private sector. With multiple airport and airline operators involved in this we find that the resources that are devoted to aviation security are inevitably exposed to commercial considerations and that they are very difficult to measure.

Notwithstanding these commercial pressures there is evidence to suggest that private operators have been investing significant additional resources into aviation security in recent years. According to Virgin Atlantic Airways in 2005, European airlines and airports are paying out €3 billion for additional anti-terrorist security measures imposed by EU governments following the tragic events of September 11<sup>th</sup> 2001.<sup>ii</sup> Also in 2005, British Airways stated that it spends in excess of £100 million per annum on

aviation security provision.<sup>iii</sup> The European Commission recently quoted ACI-Europe figures which suggest that security costs now represent up to 35% of overall airport operating costs instead of 5% to 8% prior to the events of September 2001.

But is the continuation of an increased level of investment in aviation security realistic in the current conditions?

This important question is now combined with the potential impact that new international and domestic security regulations might have on business budgets.

Some regulations may be positive, even if only time will tell. For example, the EU Defence and Security Procurement Directive could have the effect of making the European security market more competitive leading to the associated benefits for private security operators and the European taxpayer. The Commission's more recent plan to try to ensure a level playing field across Europe for airlines in the security charges they apply to passengers might also have positive benefits.

But other regulations may be less positive. For example could the requirements of the European Critical Infrastructure Protection Directive place excessive financial burdens on operators? Is the UK Government's proposal to place new funding requirements on airports to pay for "in-venue" policing through a new parliamentary bill realistic? Are private operators going to be prepared or able to pay more for new security measures? Will company shareholders accept such a notion?

It is obviously not for industry suppliers to dictate security policy. And to be clear the SBAC is not calling for immediate wholesale reform of the UK or Europe's aviation security governance or funding arrangements. But

in the current economic climate we are calling for a debate on the extent to which private airlines and airports will be able to bear new costs arising from new regulatory requirements.

Indeed we might like to see the general direction of the questions listed above flipped 180 degrees. We might instead ask: to what extent against the backdrop of the current economic conditions are anticipated cuts in public expenditure in this area appropriate? Might Governments actually have to step in and invest in the development and deployment of Transport security measures in the future? How should Governments work with suppliers to ensure that the security technology industry remains competitive? Without investment how can Government encourage innovation to deliver the new transport security technologies that might be necessary in the future?

The SBAC would argue that it can not. We would also say that industrial activism is required against this backdrop.

It is for these reasons that we recommended in our submission to the UK Treasury in advance of its 2009 Budget statement that the Government should remain committed to its forecast investments in UK security and policing. We also recommended that it should undertake an examination of the American Recovery and Reinvestment Act (ARRA). The US stimulus package is currently providing funds for investment in industrial capabilities for domestic security purposes to the Transport Security Administration, including \$1 billion for explosives detection systems and checkpoint screening equipment.

But the actions of individual Governments and the lessons we might learn from others are only a part of the picture. It is widely acknowledged that international terrorism does

not respect borders and therefore that Governments must collaborate at an international level to protect our global aviation system. We should not forget this point as the impacts of the economic crisis become clearer and as pressures towards protectionism may emerge. To some extent the links between how security is provided across borders and how they are in part delivered by the private sector suggests that protectionism could be very damaging.

The logic of the “internationalisation” of security has resulted in European Governments cooperating closely together to enhance aviation security measures through the confines of the EU since September 11 2001. But whilst the rules establishing common standards are judged to have improved aviation security significantly, what else could be done to help industry play its important part in delivering aviation security?

The time is right for the European Commission to consider in greater detail how aviation security is financed. There is also a need for the Commission to articulate its view of the potential impact that the crisis may have on European transport security expenditure more broadly.

You might argue that the Commission is already doing this. At the adoption in March 2008 of the revised Framework Regulation (EC) No 330/2008 the Commission became obliged to report on the principles of financing the costs of civil aviation security measures. The report was published in February 2009 and made a number of conclusions. One is worth quoting in full:

*“Aviation security at European airports is essentially a state responsibility. This, however, does not necessarily mean that aviation security measures should be publicly financed. The user-pays principle also has its merits.”*

I would like to argue that this conclusion is unsatisfactory on its own. Some would call it a whitewash. This is because industry and others should be disappointed that the Commission declined to explain in detail the benefits and disadvantages of the two delivery models. The Commission might argue that it was not asked to make an assessment on whether individual national governments should bear the costs of new security measures. But, in that case, what real extra value is the report able to offer?

Allow me to explain in more detail what could be done. The time is right for the Commission to move away from producing inconclusive high level analyses of governance principles and generate more detailed thinking on the advantages and disadvantages of each national aviation security delivery framework. An assessment of the levels of investment within each delivery framework and of Europe's aviation security regime more broadly could be made.

Where the costs of security delivery lie outside public funding lines, National Governments and the Commission should be encouraged to make assessments on the appropriateness of existing levels of investment.

It might be interesting for you to know that industry in the UK is calling for private operators of the critical infrastructure including airports to take account more formally through the regulatory model of the industrial supply capabilities that are available and that can protect our aviation system more effectively.

The Commission could assess in much more detail than before the operational appropriateness of current measures and the extent to which the current downturn and existing structures are placing disproportionate

pressure on the business budgets of private operators. It might consider whether security strategies are paying too little attention to the cost benefits that emerging security technologies arising from new research can provide.

The Commission and National Governments could also help industry improve Europe's transport security by ensuring that outputs are delivered from its €1.4bn FP7 security research programme. UK industry has been active in the programme and the winners of the last FP7 security research funding "call for proposals" were made public in March 2009. Of the 196 proposals submitted to the Commission, within the 27 winning proposals, 37 UK organisations are involved which puts the UK second only to France in terms of success.

But despite this indication of success industry in the UK has noted that whilst many research themes are cross-cutting there is a noticeable lack of security research themes relating directly to aviation security provision. It is also concerned more broadly about the levels of take-up of European research into practice. Whilst funding for smaller companies and research institutions through the Commission's programme will be particularly welcome at this time, the overall aims of Europe's security research agenda should not be forgotten. In the long-term we must raise the game of the security technologies that can be deployed to protect our societies in the future. We should continue in our efforts to make industry more competitive.

In this context industry should be acting as a critical friend and test the Commission's line that the winning consortia of European security research are the "owners" of any funded security research – what purpose will this approach serve if there is no connection in policy terms between the research and development, and deployment to the market? New thinking is needed on how stronger

mechanisms could be brought to ensuring there is take-up of European research into the market.

Levels of public awareness around the security measures that are in place to ensure our aviation security could also be raised. Whilst a balance needs to be struck between explaining the measures and not exposing any gaps that may exist for security reasons, the public should be made more aware of the “multi-layered” nature of aviation security. This could extend to the broad range of existing and emerging capabilities that industry can provide to deliver aviation security.

This will include awareness of new hi-tec iterations of the traditional x-ray detection technologies that the travelling public will already know about.

The public should also be made aware of other aspects of aviation security – the blast protection techniques or the “security by design” principles that are adopted in airports for example, or the new MM Wave technologies that might in the future better detect hostile materials. Is the public aware that the technology exists for acquiring and installing infrared countermeasures to mitigate the threat of surface-to-air missile attacks on commercial aircraft? Would it be prepared to bear the current estimated cost of range between \$1 million and \$3 million per aircraft?

In the end it is society that will decide how much it wishes to pay for security in the skies. The economic conditions will play into this but the level of public debate also needs to be extended to ensure that society is full informed about the risks in the current security landscape, and the investment that will be needed to meet them.

In this context regulators, institutions, politicians and industry also have roles to play in taking into account

privacy concerns relating to aviation security. Some EU security initiatives have generated concern over human rights and the European Parliament has articulated concerns on issues such as the transfer of Passenger Names Records to the US.

You might ask why the security industry should be so interested in this issue. It is because whichever way you look at it industry is an important contributor to Europe's aviation security. Should it focus its investment in developing new technologies that can detect hostile elements in the foyers of airports? Should it continue to provide more traditional equipment to private companies operating bag checks before we board aircraft? In the modern day environment it is increasingly accepted that more might be needed to be done by the private sector to deliver security. Industry therefore needs to understand from society and European Governments the extent to which it may need to invest in the development of new security measures for the future. It can do this more effectively if security is developed with the public's consent.

Stronger government and industry dialogue on the security technologies that could be deployed in the future is needed. In the UK, as the Government's latest edition of its Counter-terrorism strategy CONTEST 2 makes clear, new ways of thinking have emerged on how Government and Industry can work together to meet the challenges of the day. The UK Security and Resilience Industry Suppliers Community ("RISC") has been established and has established five working groups to provide the Government with expert knowledge and experience around the capabilities that are available around the current themes.

- Critical National Infrastructure (CNI) Protection

- Information Communications Technologies (ICT)
- Chemical, Biological, Radiological and Nuclear (CBRN) Protection
- Standoff Detection of Suicide Bombers
- Security for London 2012 Olympic Games and Paralympic Games

In the current economic conditions such government-to-industry consultation and dialogue is essential. The UK model is a useful example because through RISC industry now has a better understanding of the country's current counter-terrorism priorities and therefore where it needs to focus its investment.

Initiatives such as RISC also provide useful frameworks for allowing industry to play a role in advising government departments where savings could be made and how smarter new capabilities might reduce public spending overheads in the longer term. It is clear that managing margins and costs across Government departments is going to become a major feature of all governmental activity in most major European capitals as our political leaders aim to move our economies into recovery.

Moving away from the security brief I have been asked by the organisers in the context of the downturn to consider very briefly the EU / US "Open Skies" Agreement and the European Parliament's recent adoption of legislation to create a "Single European Sky". I do not wish to dwell on past arguments and whilst a body representing manufacturers is not best placed to make assessments on whether the EU / US agreement could have brought more benefits for operators under different arrangements, it is true to say that the open market with the competition that it brings has brought huge benefits to the whole aviation industry and the consumer. On the second point the SBAC has welcomed the adoption of the SES legislation

wholeheartedly because it is an important step towards a more efficient and environmentally beneficial air traffic management regime at a stage in time where operators are suffering more financial problems than ever before. We would encourage the European Council to adopt the legislative package as soon as possible to ensure that its full benefits are maximised at the earliest stage.

In conclusion I would like to return to the two questions that I posed at the beginning of this speech: what could be the impact of the economic crisis on aviation security expenditure and what might be the impact of new security regulations on security levels, business budgets and passenger satisfaction.

In view of the fragmentation of the European security market probably no one knows the full answers to these questions.

But industry already sees the potential for budgets that are allocated to security across public and private sectors becoming increasingly constrained in the current conditions. At the same time emerging regulations and standards could increase the levels of private sector investment that may be required. Whilst industry suppliers would say that investment in its capabilities is needed and that new security regulations and policy frameworks that take better account of industrial capabilities would improve the security of our aviation network significantly, the issue of financing still underpins all aspects of a meaningful debate.

I have highlighted the importance of this last point in the context of the current economic landscape. I have also explained some of the ways that European transport security policy could take better account of industrial capabilities in this context.

The SBAC publishes other industrial security policy perspectives that cover the “business elements of security”. We will continue to do so because the current conditions make the industrial voice more, not less important.

But in the end the essential component to industry’s future investment in security is the public’s view of the risks and the measures that it will be prepared to pay for in line with that assessment. Through a more thorough analysis of the current financing of our aviation security arrangements, the European Commission could better inform the public in its decision. It would contribute to the development of an important public debate.

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<sup>i</sup> See the Chancellor of the Exchequer’s 2009 Budget Statement Available at: [http://www.hm-treasury.gov.uk/bud\\_bud09\\_speech.htm](http://www.hm-treasury.gov.uk/bud_bud09_speech.htm)

<sup>ii</sup> Virgin Atlantic Airways Submission to Transport Committee Inquiry Report *Travelling Without Fear* available at: <http://www.publications.parliament.uk/pa/cm/cmtran.htm> p.111-112

<sup>iii</sup> *ibid*