

**SUBMISSION FROM THE NORTHERN TERRITORY GOVERNMENT**

**TO THE PRODUCTIVITY COMMISSION'S INQUIRY INTO  
THE ECONOMIC REGULATION OF AIRPORTS**

**SEPTEMBER 2018**

The Northern Territory Government welcomes the opportunity to provide a submission to the Productivity Commission's inquiry into the economic regulation of airports. This submission supports the Northern Territory Government's previous submissions to the Australian Senate's Inquiry into Regional and Remote Air Services, and Parliamentary Inquiry into Opportunities and Methods for Stimulating the Tourism Industry in Northern Australia.

**The Northern Territory in Context**

The Northern Territory has a small population of around 244,500 people, dispersed over a large geographic area of 1.3 million square kilometres. Approximately 30 per cent of the population is Aboriginal and of whom nearly 80 per cent live outside of the greater Darwin area.

The Northern Territory's two largest population centres are separated by some 1500 kilometres. As is the case with other relatively small, isolated communities across Australia, the Northern Territory has issues with the level of market power which can be brought by an individual business, including in the aviation sector. The cost of air services in the Territory are a major area of community concern.

As part of Australia's airport privatisation program, the Airport Development Group acquired leases from the Australian Government for the three Northern Territory airports—Darwin International Airport, Alice Springs Airport and Tennant Creek Airport—in June 1998. Each lease is for 50 years, with an option of a further 49 year lease. Ayers Rock Airport is leased to Voyages Indigenous Tourism Australia, while Katherine Airport is managed by the Katherine Town Council and Gove Airport's operating structure is being considered through the Rio Tinto curtailment process.

**The Cost of Airfares**

As with other regional / remote areas of Australia, the supply, sustainability and cost of air services in the Territory is challenged by a number of factors, including:

- long distances - resulting in additional fuel and aircraft operating costs and scheduling challenges; and in remote areas the high cost of aviation fuel;
- a small resident Northern Territory population – resulting in limited demand for services, reduced economies of scale and less competition on routes;
- high infrastructure and service provision costs;
- access to suitably qualified pilots, especially in the charter and general aviation sectors;
- aging aircraft fleets and high maintenance and capital replacement costs;
- airport charges applicable to airlines;
- airport charges for security and safety mandated by the Australian Government; and
- climatic conditions impacting on operations.

As with most remote and regional areas across Australia, these challenges contribute to higher airfares. The cost of airfares impacts on the ability of remote and regional Territorians to travel for educational, business, family or leisure activities, and also impacts on the attractiveness of the Territory as a holiday destination for visitors from interstate.

Alice Springs and Gove in the Northern Territory are examples of locations that face higher operating costs and lower demand, which in turn leads to higher airfares. Economic development and growth in regions, including through resource and tourism activities, will not only drive growth and jobs but will increase demand for air services.

It is common place for domestic and international carriers to raise with the Northern Territory Government the high costs levied by airports in the Northern Territory, with these costs being a mix of airport charges and mandated security and safety costs.

The Northern Territory Government released a Population Strategy in August 2018, designed to create 21,000 jobs and add \$10 billion to the economy over the next decade through a range of mechanisms to boost the number of people calling the Northern Territory home. This includes providing financial incentives for people to permanently move from interstate. The Australian Government's level of commitment to developing the North and supporting the growth and development of regions is an important factor in the success of this approach.

#### **The Impact of Inequitable Mandated Fixed Airport Security and Safety Costs**

Effective aviation services are crucial for supporting the Northern Territory's tourism industry, which is a significant contributor to the Northern Territory economy. Approximately 77 per cent of interstate and international visitors enter the Territory by air.

National mandated fixed airport security and safety costs have resulted in a disproportionately high cost burden on visitors through the Northern Territory's airports compared to other jurisdictions due to low passenger volumes. This has resulted in Darwin and Alice Springs airports having the highest per passenger costs in the country amongst the major regional domestic airports.

*Recommendation One – To ensure costs are more equitable for all Australian users, it is recommended that the Australian Government introduce network pricing for airport security charges with the cost to be shared equally per passenger nationally.*

#### **Costs associated with CASA regulation, particularly for the small operators**

CASA is currently consulting on amendments to Part 119 of the Civil Aviation Safety Regulations to abolish the distinction between charter and Regular Passenger Transport (RPT) service providers. It is proposed there will be one definition of "air transport operation" meaning that charter operators will need to have:

- A training and checking system
- A safety management system
- A safety manager
- Human factors and non-technical training, and
- Qualifications, experience and responsibilities for key personnel (CEO, head of flying operations, head of training and checking, and the safety manager).

It is understood CASA will appropriately scale these requirements and assist with guidance materials and sample manuals for smaller operators, however, there may nevertheless be some serious consequences for remote and regional services especially if there is a large financial burden in meeting higher new safety requirements.

*Recommendation Two – The Australian Government allow a reasonable transition period and consider providing financial assistance for costs of compliance to smaller charter operators who provide essential aviation services in remote and regional areas as they transition to new safety regulations imposed by adjustments to Part 119 of the Civil Aviation Safety Regulations.*

### **Conclusion**

Air services are critical for the Northern Territory's economic and social wellbeing and growth, and underpin the Northern Territory's ability to close the gap on Aboriginal disadvantage, develop our regions, and drive the development of the north. Air services support the Northern Territory's economic development by enabling the vital tourism, resource, business and trade sectors and are essential for its social development by enabling delivery of and access to education, health, justice, welfare, employment, recreation, cultural and other services for residents of the Northern Territory's regional and remote areas.

The Northern Territory Government looks forward to continuing to work with the Australian Government to ensure Territorians have effective and affordable air access to support their social wellbeing and development and opportunities for economic growth.