

**Submission to the Productivity Commission
Inquiry into the Economic Regulation
of Airport Services**

April 2011

from the

Northern Territory Government

Introduction

The Northern Territory Government welcomes the opportunity to respond to the Issues Paper released by the Productivity Commission examining the current economic regulation and quality of service monitoring regime for Australian airports.

The combined demographic, geographic, climactic and economic characteristics of the Northern Territory result in the aviation industry forming a considerably more significant input into the Northern Territory economy – across all industries – than it does to the national economy.

The Northern Territory's population is concentrated in urban centres, with the Darwin region accounting for 62% of the total population. Approximately 38% of the population of the Northern Territory live in regional or remote areas. The Northern Territory has the highest proportion of Indigenous Australians of all jurisdictions. Many Indigenous Territorians live in regional or very remote communities. Climactic conditions often result in large areas of the Northern Territory becoming inaccessible by road for several months of the year.

Territorians rely heavily on air transport, and it is crucial to the social and economic development of the region. Air services support significant industries such as the tourism, resources, and Defence sectors as well as providing vital links to regional and remote communities.

Tourism is one of the main sectors of the Northern Territory economy, contributing about 7% to the Northern Territory Gross State Product. Tourism is the major employer in the Northern Territory and is one of few industries that offer sustainable economic development opportunities in regional Australia, particularly for Indigenous Territorians. With the majority of international tourists arriving by air, aviation is particularly important to tourism in the Northern Territory.

Security Charges

Domestic airport charges are higher at Darwin International Airport (DIA) than at any other airport in Australia. Security charges at DIA are second only to Alice Springs Airport. High security costs at Alice Springs Airport are noted as being a direct result of its proximity to the Joint Defence Facility at Pine Gap due to the facilities' pivotal role in collecting intelligence data to support the national security of both Australia and the United States.

The Australian Government-mandated security standards impose a disproportionate cost burden on regional international gateway airports. The primary fixed security costs dictate that the cost-recovery charge required at low passenger volume airports such as DIA is markedly higher on a per passenger basis than at major gateways.

Given the importance of security costs in the overall pricing of aeronautical services especially at regional international gateway airports, security costs need to be considered in this inquiry in answering questions concerning the appropriateness of the coverage of the current regime and its future role (ToR 5).

The effectively 24-hour operational requirements at DIA and the associated above-average labour costs result in a largely irreducible cost structure. The high costs of labour and security charges at DIA impact negatively on the price competitiveness of Northern Territory airports. The level of security costs results in airports such as DIA being less attractive to airlines, particularly low cost airlines, and disproportionately increases security costs payments by individual passengers, thus serving as an impediment to wider Northern Territory economic development. Alleviating these security cost burdens would generate significant benefits for the Northern Territory economy and in particular the growth and future role of our aviation and tourism sectors.

Substantial community benefit could be derived from an equalised pricing structure across the national aviation network with costs borne fairly by travellers irrespective of their airport of origination or destination. Failing this, special consideration should be given to the unique circumstances in the Northern Territory and the flow-on affects of the higher cost of providing security at Northern Territory airports.

Alternative security cost equalisation funding arrangements should be considered by the Australian Government. These broad policy options could involve either network pricing or direct funding assistance from the Australian Government.

Network Pricing

Network pricing would distribute the cost of airport security evenly throughout all Counter Terrorism First Response (CTFR) airports, or alternatively across all CTFR airports outside the four 'major gateways'.

A network pricing model would be the most effective method of reducing the cost burden on Darwin and other regional airports. This model could be applied to the entire CTFR network. As an indicative estimate, the impact of a full network pricing model (i.e. applied across all 11 CTFR airports) would reduce the per passenger security charge at Alice Springs to around one-third of its current level.

An alternative approach is a model of network pricing to be applied only to regional airports outside the four 'major gateways'. The ability of this model to alleviate high security costs is diminished, in principle, because the base available to spread total costs is considerably lower than in a full-network model. However, due in large part to the inclusion of Adelaide, where the current per passenger security charge is the nation's lowest, a network pricing model that excludes the major gateways would achieve a per passenger security charge of around \$4.90 - only marginally higher than a full network model.

It is noted however, that this is not the most optimal approach because of its adverse impacts on efficiency, particularly in respect of allocative efficiency.

Direct Funding Assistance

Direct funding assistance from the Australian Government could take the form of a full funding model, a partial subsidy, or a capital expenditure funding model.

Direct funding would acknowledge the aviation industry's role in Australia's national security agenda, as well as recognise the adverse impacts the existing framework has on the ability of regional international gateway airports to compete for air services. While full Government funding would be the most useful strategy for eliminating the cost burden from regional airports, it would also be the most costly. Further, if applied selectively, the model would distort price signals, inverse to what occurs presently, creating inefficiencies.

An ongoing subsidy would provide the Australian Government with a flexible tool for alleviating the impacts of mandated security standards, while supporting and encouraging regional development. Economic efficiency suggests that the Australian Government's contribution to the cost of airport security should reflect the proportion of the benefits that accrue on a utilitarian basis.

The cost of meeting mandated airport security requirements in the Northern Territory acts as an impediment to the Territory's economic development. Alleviating this burden would generate significant benefits for the regional economy and provide a channel for the pursuit of the Australian Government's regional and Indigenous economic development agendas.

Recommendation

Special consideration for Federal Government assistance should be given to Darwin International Airport and Alice Springs Airport to alleviate the disproportionate burden of Australian Government-mandated security costs.

The Northern Territory Government recommends that direct funding assistance from the Australian Government should be provided.

Conclusion

As an element of the Productivity Commission's assessment of the future role of the regime for regional international gateway airports, appropriate consideration should also be given to ensuring the minimisation of red tape and the costs borne by airport users and maximisation of the airport's contribution to the Northern Territory economy.

The Northern Territory Government strongly argues that the onerous security cost burden on passengers at the Darwin International Airport and similar regional international gateway airports should be shared on a more equitable basis. It is the position of the Northern Territory Government that in order to achieve sound passenger security cost equalisation over the entire Counter Terrorism First Response (CTFR) airport network in Australia, a direct funding model should be utilised.