2011 NT SUMMIT

16 March 2011

Territory Air Services

Background

Government involvement in the industry[2]

Domestic aviation markets are largely deregulated. In contrast, rights to operate international flights are determined by agreements between governments. The Australian Government negotiates such agreements with foreign countries.

The Australian Government is also responsible for aviation safety and security, air traffic management, critical airport infrastructure and other policy areas such as consumer affairs and environmental issues. The Australian Government released its National Aviation Policy White Paper in December 2009. The Northern Territory Government contributed to the policy's development through various submissions and representations to the Australian Government.

The Northern Territory Government will continue to monitor the implementation of the National Aviation Policy. It will work with the Australian Government to minimise any barriers to growth of the industry in the Northern Territory, and to pursue any opportunities that may arise due to changes in national aviation policy.

The Northern Territory Government has responsibilities for encouraging trade, private sector investment and economic development, as well as providing community, essential and emergency services. Establishing a framework to develop air services and the aviation industry in the Northern Territory is an important part of this. This strategy outlines the Northern Territory Government's priorities relating to improving airline capacity in the Territory and how it will work with the industry to realise these in a coordinated and cooperative way.

<table>
<tr><th>Strengths</th><th>Weaknesses</th></tr>
<tr><td>
• Existing airport infrastructure in Darwin, Alice Springs and Yulara with no curfews.
• An established network of domestic and international air services, including an emerging international aviation hub in Darwin.
• A strong, growing economy underpinned by the resources and agricultural sectors and established trade markets leading to growth in business and corporate travel.
• Established tourism markets and strong tourism
• destination branding platform “Share Our Story”.
• World-class tourism destination with two World Heritage National Parks (Kakadu and Uluru-Kata Tjuta), two convention centres (Darwin and Alice Springs) and a range of commercial accommodation.
• Strong established relationships between NT Government and airports and airlines.
• A number of smaller airlines offering air services to remote areas.
• good geographic location for narrow-body aircraft operating to Asia.
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• High unit costs for airport security and related charges.
• Expansion of airport infrastructure required at Darwin.
• Relatively small, widely dispersed population.
• Geographically distant from major Australian
• population centres.
• Domestic tourism makes up more than two thirds of the NT tourism industry and is highly seasonal.
• Seasonal demand for airfreight.
• Heavy reliance on mining and government travel on regional routes and leisure tourists on international and interstate routes.
• Relatively small industry providing aviation support services.
• Limited competition on existing routes to, from and within the Northern Territory.
• No full service international airline.
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<tr><th>Opportunities</th><th>Threats</th></tr>
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• Growth in low cost airlines across Australia and Asia and their use of narrow-body short-haul aircraft.
• Growth in tourism from emerging Asian markets like China, Korea and India to Australia.
• Increasing use of the Internet by consumers to plan and book travel, and rapidly changing tourism distribution channels.
• Increasing interest by travellers in short-break and ‘exotic’ tourism destinations.
• Improved cooperation between some airlines through codeshare and interline agreements and development of airline ‘franchises’.
• Development of new aircraft technologies.
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• Strong competition from other communities and tourism destinations globally.
• Consolidation in the aviation industry.
• Purchase of long range aircraft could mean the NT is overlooked by some airlines.
• Fluctuations in jet fuel prices.
• Pilot shortages and delays in the delivery of new aircraft to airlines.
• Protracted reduction in consumer confidence, discretionary spending and air travel.
• National policies that negatively impact on the price competitiveness of airports in the Northern Territory.
• Carbon emissions trading schemes and carbon taxes increasing costs for airlines.
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Key NT Government priorities for the next five years

1] Expand the Darwin International Aviation Hub with services from a range of domestic and international ports, especially in Asia.

2] Attract a full service international airline to operate direct flights to and from Darwin.

3] Develop regular international services or strategic charter programs to Alice Springs and Yulara.

4] Develop additional domestic linkages and improved air services to and from Alice Springs, Yulara and Darwin.

5] Develop a complementary strategy on transport requirements within the Northern Territory which addresses regional airport infrastructure needs and the development of air services to regional and remote centres including to Tennant Creek and Katherine.

6] Assist aviation-related support industries to expand in the Northern Territory.

7] Align aviation industry development strategies and activities to help support other Northern Territory Government priorities outlined in *Territory 2030 and Working Future* programs and other transport strategies.

8] Work with the Australian Government to minimise the cost of providing aviation security at Darwin and Alice Springs airports.

International aviation

"The Government will also move to encourage international airlines to increase services to Australia's secondary international gateways. Australia's regions have further potential to grow their inbound tourism markets. By providing airlines who serve regional airports with greater access to the major gateway destinations of Sydney, Melbourne, Brisbane and Perth, the Government will provide further incentives to airlines to better service destinations such as Cairns, Darwin and Broome"

Discussion points:

- It is acknowledged that from an international perspective it is the ability to operate at the back of the clock that makes Darwin viable as an international airport. Although inconvenient it is a reality that is to Darwin's advantage. It is essential that 24 hour operations be retained.

- Jetstar has no mechanism to evaluate unfilled demand. The reduction of Darwin Singapore service to one flight over the peak Christmas period is an example. Jetstar has no ability to understand how many potential passengers were unable to obtain flights. Without this base data it is difficult to see how sound commercial decisions can be made. Jetstar – and others – need to create a mechanism to track unfilled demand. This may be as simple as adding a feature to their web site booking pages. If this is not possible then NTG may give consideration to tracking this via a separate web based portal.

- Reduction of Singapore Darwin flights and changes to schedule times has made it exceptionally difficult for business travel. Business travel is typically undertaken on short notice. Jetstar has no mechanisms for distinguishing between business and leisure travel and consistently believes that almost all passengers out of Darwin are in the leisure market. This may be appropriate for its marketing where there are many choices of flights and carriers. It is not appropriate in Darwin where they hold a monopoly on flights and flying Jetstar is not a matter of choice. If you are invited to participate in a Jetstar survey and select business as the reason for travelling on Jetstar then you are often excluded from participating in the survey. Greater effort needs to be put in to identifying the size of the business component of Darwin Singapore travel. This could be supported by NTG as part of a wider tourism survey and done as part of the check-in process.

- Reduction of Singapore Darwin flights and changes to schedule time has severely limited the tourist travel market by cutting the number of available seats at peak times, such as school holidays and public holidays. There appears to be little understanding of the travel patterns of NT residents with peaks in demands for Bali and international travel. NTG and tourism can assist in this by collating and making data available. The current late departure from Darwin destroys the time window for many connecting flights out of Singapore, imposing an additional day layover. Great for Singapore tourism, but a disincentive for travellers.

- The provision of star-class or business class seating always remains on the wish list but the changing model of the airline industry makes this an objective that is largely unattainable.

- The threat for Darwin international service comes with the shift of the budget model away from short haul to long haul models. This shifts the Jetstar model to direct flights from Sydney to Singapore.

- Capacity constraints in terms of infrastructure and service delivery at Darwin airport act as a brake on expansion plans. An expansion of the physical infrastructure is ineffective unless there is an improvement in the delivery of baggage services and clearance rates in the customs area.

- Encouragement of Government support for Air Asia direct Darwin Singapore flights. This requires a better understanding of the budget airline model, and in particular the AirAsia model. Discussions with Air Asia deputy CEO in Shenzhen late last year - route clearances and landing rights are a significant stumbling block and this may require active Government support and lobbying.

- Encouragement of Government lobbying of JetStar and Air Asia to introduce transit arrangements in Denpasar, Bali. This will enable transiting passengers to avoid the inconvenience of clearing immigration and customs in Bali. AirAsia have recently introduced a transit service in Kuala Lumpur. Many passengers would be prepared to pay ticket price supplements to avoid this inconvenience.

- The impact of current and future resource projects on international business travel into the Northern Territory is largely unknown. Have any studies been conducted to evaluate the number of international visitors to the Northern Territory who have travelled business class via a southern port due to the lack of full service international airline operating into the NT. Does this impact on the decision on where to locate resource majors' regional offices?

It is essential the Government play a more effective role in creating the environment that retains air services and facilitates the acquisition of landing rights.

Domestic and regional aviation

The situation is less clear in regional Australia. There is a contrast between the solid growth rates to destinations such as Cairns, Sunshine Coast or Newcastle, often with a high tourist component, and static or falling demand on services to remote destinations such as Bourke. A trend towards larger aircraft has seen a decrease in both the number of regional airports served and the number of airlines and flights serving them. Declining regional populations and competition from other modes of transport have had an adverse impact on many in the regional aviation industry.

The Government considers that assistance for regional and remote air services and airports can be improved and better targeted at those routes that are unable to sustain commercial operations.

The NT Government "Territory 2030" plan outlines key priorities to "Improve access to regional air services" and to "increase the number of all-weather roads and airstrips in the Territory".

Discussion points:

- Which outlying areas have unmet demand for RPT [regular public transport]?
- Is airport infrastructure satisfactory in remote and regional airports?
- Can improvements in land transport routes alleviate the need to utilise charters into remote areas?
- Are we in danger of becoming over-serviced on domestic routes? The NT has more domestic services than ever before, will the passenger market bear this in the long term or will we continue to see airlines changing schedules at their own whim?

General Aviation

The general aviation sector comprises a diverse range of operations, including recreational and private flying, aerial agriculture and mining work, fire-fighting, flight training, charter and low-capacity passenger-carrying operations, amongst others. General aviation is often the training ground for future airline pilots and employees in other skilled occupations, thereby making an important contribution to the skills requirements of the wider aviation industry.[1]

The large General Aviation sector at Darwin International Airport (185 light aircraft plus 12 regional aircraft) is crucial to service provision across the Territory. It is projected that by 2030 combined Airline and General Aviation aircraft movements will grow from 88,000 movements (27,000 regular passenger traffic and 58,000 general aviation) to some 130,000 movements per year.

There are a wide type of essential service type air services that connect remote communities to Darwin. Examples include aeromedical evacuations, education, utilities maintenance, housing, clinical visits and elections. From 1999 to 2007, charter flights have accounted for the largest sector of general aviation in the Northern Territory with 56% of total flying hours. Aerial work was second highest with 27% and business flying accounted for a further 9%.

This sector appears to be approaching saturation point, with pressure building on general aviation capacity at Darwin airport. As part of the Darwin International Airport masterplan, expansion of the General Aviation area at the airport will include a new helicopter apron.

Discussion points;

- Is the General Aviation area at Darwin International Airport sufficient to allow for current industry usage? Feedback from General Aviation operators at an IBC forum in December 2010 was critical of the lack of space currently available.
- Is the proposed expansion of the General Aviation area at Darwin International Airport sufficient to allow for industry growth? The plans include a helicopter apron
- The high level of charter flights can be expected to grow in tandem with the increase in offshore oil and gas activity. Is the expansion of the GA area sufficient for this growth?

Airfreight

The Aviation Futures 2015 Strategy does not outline detailed strategies for the development of airfreight and this is possibly justified by failed experiments in the past to maintain and build airfreight capacity from the Northern Territory.

At present, the only airfreight options for containerised cargo are on wide bodied services via the Eastern seaboard.

Comments by local cut flower producer

> Prices going up; reduction in airfreight capacity; perishable last to get on; containerised freight lost; service providers less than helpful; main issue is have tried road freight but don't have volume to fill up truck; send produce interstate only; no international exporting from Darwin; example freight from Darwin to Brisbane, airline will put freight on whatever flight they choose [not necessarily the direct route, so may go to Sydney and sit on tarmac for hours], Ben doesn't know what flight it will be on until it's been loaded. Deals direct with airline, not through freight forwarder. Aust Air Express facilities are inadequate for freight.

Comment by local manufacturer

> Concern about air freight being severely limited by airlines using narrow bodied aircraft out of Darwin. We recently sent 2 ton of cargo to Brunei which had to be road freighted to Brisbane where it was loaded onto a Royal Brunei flight to Brunei. The reason being you can only load 45kg per item in Darwin onto narrow bodied aircraft.

At a government and industry sponsored aircargo forum in 2005, it was agreed by industry that "the key to generate airfreight capacity appears

- not to be how to create a sustainable international option out of Darwin, but
- how to provide regular wide body capacity to the East Coast throughout the year to connect to the considerably more flexible and cheaper flights from Sydney, Brisbane or Cairns."[4]

Discussion points;

- Is there merit in lobbying AirAsia to offer freight services via Bali?
- Is there a need for more wide-bodied services on domestic routes or is current airfreight demand being met?
- Is the lack of international aircargo capacity limiting industry growth in the Northern Territory – has the situation changed since 2005?

Cabotage

(excerpt from National Aviation White Paper)

Cabotage is the right of a foreign airline to carry domestic passengers in another country. It is not a right that is normally granted in bilateral air services agreements.

As a general rule, the Australian Government does not intend to permit cabotage. The Government does, however, recognise that cabotage is a valuable right sought by some of our bilateral partners. Where demonstrable benefits can be gained through the granting of cabotage rights, and provided safety and other concerns are satisfied, the Government will consider trading cabotage rights strategically — for example, to help achieve a comprehensive open skies agreement with a major trading partner, such as Europe, or to gain reciprocal cabotage rights in a significant market such as the United States.

The Government may consider unilateral cabotage in some exceptional circumstances: for example for operational reasons when domestic services are temporarily unavailable, or on a more long-term basis when a foreign carrier may seek to operate on a route which is not currently served by scheduled domestic airlines or which requires a government subsidy (such as routes between some of Australia's external territories and the mainland).

Australia is one of the only countries in the world that allows up to 100 per cent foreign ownership of its domestic airlines. Under these arrangements, a foreign airline with a bona fide commitment to sustainable and regular domestic services may set up an Australian domestic subsidiary, operating with an Australian AOC, and under full CASA oversight.

For example, Tiger Airways Australia entered the Australian market in November 2007. Tiger Australia is a subsidiary of the Tiger Aviation Group, owned by Singapore-based Tiger Aviation Private Limited. Tiger's founding shareholders include Singapore Airlines. Although Tiger is foreign-owned, it is subject to Australian regulatory oversight in the areas of safety, security, competition, consumer, occupational health and safety, and other oversight applying to Australian businesses.

Discussion

- Should we lobby for cabotage from regional cities? This may attract full service international carriers by enabling them to sell standalone fares on domestic legs into other regional destinations eg Gold Coast Airport, which, while close to Brisbane, serves the Gold Coast, a stand-alone destination for international visitors.
  This may be enough to attract the return of a full service carrier such as Royal Brunei Airlines. Could this be done by taking advantage of our unique position in the region as development partners in BIMP-EAGA, a region which offers fifth freedom rights?
  The fifth freedom, also referred to as beyond rights, allows an airline to carry revenue traffic between foreign countries as a part of services connecting the airline's own country. It is the right to carry passengers from one's own country to a second country, and from that country to a third country (and so on). An example of a fifth freedom flight is a Emirates Airlines flight originating in Dubai, then going on to Brisbane, Australia, and then from Brisbane to Auckland, New Zealand, where tickets can be sold on any or all sectors, and in the reverse direction if flights are offered.

References:

[1] http://www.tourismnt.com.au/Portals/3/docs/strategy/Aviation-Futures-2015.pdf

[2] http://www.infrastructure.gov.au/aviation/nap/

[3] 2010 Darwin International Airport Master Plan draft

[4] Airfreight Forum Report – July 2005, Catalyst