

**Northern Territory
Submission**

to the

**Industry Commission
Inquiry**

into

**International Air
Services**

MARCH 1998

INTERNATIONAL AIR SERVICES

This paper provides comment by the Northern Territory on International Air Services in light of the current inquiry by the Industry Commission. In particular, it seeks to show the benefits of using the Northern Territory's preferred approach to the negotiation of Air Service Agreements as a means of moving towards more liberalised arrangements. The concept the Northern Territory wishes to see applied to the process of Air Service Agreement negotiations is for an open route and open capacity arrangement for airlinks between northern Australia and countries to the north.

The international air services market to and from Australia has been opened to more carriers and less capacity restrictions over the last 20 years. Australian carriers have reacted by becoming more cost and strategically competitive in the global market. Alliances and code-sharing are an important development for both cost and marketing reasons with recent examples being Qantas using its relationship with British Airways and others, and now Ansett seeking to do the same with Air New Zealand and Singapore Airlines.

The Commonwealth Government has been open to advice from a number of sources in the formulation of policy and on individual strategies regarding the development of Air Service Agreements. The NT Government provides input to the Commonwealth and this is seen as working in a satisfactory manner. Also the tourism input to the negotiation strategy of the Commonwealth has achieved significant improvements to the increase in competition on international routes and at the same time allowed Australian airlines to achieve access into foreign markets.

The recent developments in Australia's international aviation policy have generally been beneficial to NT tourism and aviation interests. However one aspect of concern to the NT is the relative attractiveness of Darwin compared to other points in Australia. Past negotiations have often traded individual Australian cities rights but in more recent times this has given way to a more liberal approach. Once regional cities had specific designations of capacity and/or frequency and this benefited those regional cities.

If a foreign carrier is restricted to a choice of operating a service to Darwin or say to Sydney, then pure airline economics will point to the latter for the reasons of critical mass. However, there is acceptance by governments that the development of regional Australia is important and this inquiry does have regard for this aspect.

The Commonwealth has been implementing a new policy in certain selected negotiations. It has been successful in some outcomes and is still pursuing others. The policy is called the "Northern Australia" concept. In broad terms the concept is for an "open skies" policy for flights between points in northern Australia (Darwin, Broome, Port Hedland, Townsville, and Christmas Island) to foreign points, whereby foreign carriers and Australian carriers are able to operate between regional points in the north of Australia and major centres or regional points in the trading country with no affect on their overall capacity entitlement.

This frees the carrier from having to choose between say Sydney and Darwin as the Australian destination, or origin in the case of an Australian carrier.

The NT does not necessarily wish to pursue a total Australian open skies policy on a unilateral basis. It does wish the Commonwealth to pursue the concept of the "Northern Australia " Policy with as many countries as possible. The decision to operate to Darwin would be based on the economic merit of the service and not cause competition between Australian cities. The NT Is conscious of the importance of the economic success of any flights to Darwin and the NT, and the critical nature of this aspect in the airline business.

The issue of codesharing and alliances has been briefly mentioned above. Codesharing to regional cities is often used by airlines and this benefits regional routes. For example if British Airways were to use codesharing on the Qantas services to Darwin, this would provide exposure of the route across the British Airways network and distribution system. In this way regional routes are enhanced and hence this aspect should be encouraged when service and frequency are not too adversely affected. The NT supports the Ansett/Air New Zealand/Singapore alliance as it is encouraged by the opportunities it may present which otherwise are unlikely to develop.

The Industry Commission wants to establish if airlines are being restricted by the current regulatory framework. The comments on the "Northern Australian "concept should be referred to above. Whilst capacity at any moment may be in excess of requirements, markets may quickly grow and any delay in enhancement of capacity may cause the city competition aspect to be raised. It could be the airline's view that there may be a future capacity problem and this could impact the airline's choice of route in Australia, even when capacity in excess of current requirements is available. The development of regional routes, sometimes at some risk, needs to be free from any threat of future capacity restrictions.

Fifth, Sixth and Seventh freedom rights are useful for the promotion of competition on regional routes. Special consideration for these rights on routes to the NT should be considered to encourage airlines to operate to regional points. Restriction on 6th freedom rights is not really possible (except by total capacity restrictions).

The benefits of cabotage rights would be the ability for carriers using Darwin as a setdown point en-route to other Australian cities to earn revenue on the sectors beyond Darwin and therefore increase the carrier's revenue raising capacity and hence its commitment to Darwin.

The competitive advantages that may follow the addressing of cabotage as reflected by the introduction of new airfare levels between Australian source market cities and the NT would potentially offer some benefit to the NT. It may also offer the opportunity to open new routes, eg Drw/Mel.

Benefits would also be gained through cabotage rights for the carriage of air freight between Darwin and other Australian destinations. Considerable freight capacity is not being utilised.

The NT acknowledges the importance in any system of bilateral air service agreement negotiations of ensuring that Australian carriers are afforded considerable opportunity. Ansett and Qantas currently operate the majority of international services to and from Darwin. Any threat to the Australian carriers would adversely affect the NT and Darwin as its tourism gate way.

As previously mentioned, a regional approach to liberalisation is very much favored by the NT. Darwin's position as Australia's northern gateway, particularly to east Asia, is now well recognised. The Northern Territory's involvement in the Brunei, Indonesia, Malaysia, Philippines - East Asian Growth Area (BIMP-EAGA) will continue to strengthen ties with the region. The agreement on economic cooperation between BIMP-EAGA countries has produced a liberalised regime between the member regions and lead to substantial increases in air services.

The "Northern Australia" proposal for Air Service Agreement negotiations encourages regional development by increasing opportunities to utilise selected northern secondary gateways to increase inbound tourism to Australia. The concept may be used by the Commonwealth as an early initiative, on a selective basis, to increase the liberalisation process. Over time there will be increasing global and regional pressures for open route and open capacity arrangements.